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11 *AFSCME LOCAL 101*

12
13 **SUPERIOR COURT OF THE STATE OF CALIFORNIA**
14 **IN AND FOR THE COUNTY OF SANTA CLARA**
15 **AT SAN JOSÉ**

16 SAN JOSE POLICE OFFICERS'
17 ASSOCIATION,

18 Plaintiff,

19 v.

20 CITY OF SAN JOSÉ, BOARD OF
21 ADMINISTRATION FOR POLICE AND FIRE
22 DEPARTMENT RETIREMENT PLAN OF
23 CITY OF SAN JOSE, and DOES 1-10,
24 inclusive,

25 Defendants.

Consolidated Case No. 1-12-CV-225926

[Consolidated with Case Nos. 1-12-CV-225928,
1-12-CV-226570, 1-12-CV-226574,
1-12-CV-227864, and 1-12-CV-233660]

ASSIGNED FOR ALL PURPOSES TO:
JUDGE PATRICIA LUCAS
DEPARTMENT 2

**DECLARATION OF DAN DOONAN IN
SUPPORT OF OPPOSITION TO
DEFENDANT'S MOTION FOR SUMMARY
ADJUDICATION**

Hearing Date:
Hearing Time:
Courtroom: 2
Judge: Hon. Patricia Lucas
Complaint Filed: July 5, 2012
Trial Date: June 17, 2013

26 AND RELATED CROSS-COMPLAINT AND
27 CONSOLIDATED ACTIONS
28

1 I, DAN DOONAN, declare:

2 Qualifications

3 1. I am a Labor Economist III with the American Federation of State, County and Municipal
4 Employees, AFL-CIO ("AFSCME" or "Union"). I have worked with AFSCME since February
5 2008. Part of my responsibilities include analyzing the finances of employers in support of
6 AFSCME's collective bargaining efforts and serving as a pension experts for affiliates of AFSCME
7 by evaluating, advising, and testifying on pension issues.

8 2. I graduated from Elizabethtown College in 1997 with a Bachelor's of Science in Mathematics
9 and achieved a minor in Business Administration. I also passed the Society of Actuaries courses one
10 through four and the Enrolled Actuarial Exam (EA-I). In Fall 1997, I received an "A" grade in a
11 Statistical Sampling course at George Washington University.

12 3. From August 2005 through February 2008, I served as the Assistant Director of Research for
13 the National Association of Letter Carriers. Part of my responsibilities included providing economic
14 research; serving as lead analysis for collective bargaining process; releasing periodic updates on pay
15 charts, Cost of Living Adjustments ("COLA"), and the effect of pension accruals; and reporting on
16 financial performance of major postal organizations.

17 4. From August 1998 through August 2005, I served as a Consultant Actuary to the Retirement
18 Practice at Buck Consultants ("Buck"). Part of my responsibilities included managing the
19 preparation of actuarial valuations for pension and post-retirement health care plans, as well as
20 preparing government forms related to pension plans, consulting on plan design issues, processing
21 retirement calculations, producing benefit statement, and pricing plan changes. From September
22 2001 to November 2003, I served as Buck's on-site leased employee to Ford Motor Company
23 ("Ford") and provided support within Ford's Treasury Department. Part of my responsibilities
24 included producing pension plan funding and expense projections; providing costs analyses for a
25 wide range of employee benefit issues; serving as the contact person responsible for administering
26 two small pension plans; reporting on the status of Ford's pension plans to various parties such as
27 investors; determining the cost impact and human resources implications of pension plan design
28

1 issues, including comparisons of defined benefit, defined contribution, and cash balance plans; and
2 studying interest rate sensitivities and effects on funding and PBGC premiums on Ford's plans.

3 5. From May 1997 through August 1998, I served as a Mathematical Statistician for the United
4 States Department of Labor where I, amongst other things, selected survey samples and processed
5 weighted means and variances, including adjusting for non-response. I also authored a paper on the
6 effect of using replication to estimate variances for the National Compensation Surveys ("NCS"),
7 which compared the results under replication to those published under the current method (Taylor-
8 series approximation).

9 6. My professional training and past work experiences qualify me to review and interpret
10 actuarial, economic, and statistical models, surveys, and papers. I am also qualified to explain
11 accepted actuarial, economic, and statistical concepts.

12 7. In the past, I have testified before legislative bodies, including the City of Atlanta,
13 GA, and the Kentucky Pension Taskforce. I have been qualified as an expert in multiple state
14 proceedings.

15 8. I have personal knowledge of the facts set forth below and if called as a witness I
16 could and would testify competently thereto.

17 **Relevant Definitions**

18 9. The "Annual Required Contribution" ("ARC") is the "amount of money that actuaries
19 calculate the employer (and employees) need to contribute to the retirement plan during the current
20 year for benefits to be fully funded over time." (See Gurza Decl, Exh. 1, p. iv.) The employers'
21 share is calculated by subtracting employee contributions from the ARC.

22 10. The "normal cost" of retirement benefits refers to the "portion of the total present
23 value of benefits that actuaries allocate to each year of service. It can be thought of as the annual
24 premium that the employer must contribute to fund the benefit. It is a part of the ARC." (Gurza Decl,
25 Exh. 1, p. iv.) This term essentially refers to the present value of the retirement benefits a worker
26 earns in a particular plan year.

27 11. "Actuarial accrued liabilities" ("AAL") refers to the "value today of all past *normal*
28 costs. Retired employees are no longer accruing benefits, so their actuarial accrued liability is the

1 entire value of the benefit. The liability represents the value of benefits promised to employees and
2 retirees for services already provided. This concept applies to both the pension liability and retiree
3 health care liabilities.” (Gurza Decl., Exh. 1, p. iv.) The AAL is synonymous to the value of benefits
4 already earned in exchange for employees’ and retirees’ past service.

5 12. “Unfunded actuarial accrued liabilities” refer to the “unfunded pension obligation for
6 prior service costs, measured as the difference between the accrued liability and plan assets to the
7 difference between its actuarial accrued liabilities and the value of assets accumulated to finance an
8 obligation. When using the actuarial value of plan assets, it is also referred to as the Unfunded
9 Actuarial Accrued Liability [(“UAAL”).]” (Gurza Decl., Exh. 1, p. iv.)

10 13. The “discount rate” of a retirement plan is the anticipated rate of return on
11 investments, which is assumed when measuring whether current savings are adequate to meet future
12 obligations or determining the present value of the plan’s future benefits obligations for purposes of
13 computing the ARC or UAAL. (**Exh. 1.**) The aforementioned report was prepared by Boston
14 College’s Center for Retirement Research. Such a report is well-regarded in the industry and relied-
15 upon by experts of the trade. A true and correct copy of the report is attached as **Exhibit 1.**

16 14. A “defined benefit” plan (“DB Plan”), or a pension plan, is an employer-sponsored
17 retirement plan which guarantees lifetime benefits to members. The employer often bears all of the
18 risk attributable to funding the benefits provided by the plan, though employees bear some funding
19 risk in the form of increased contributions. (Gurza Decl., Exh. 1, p. 57.) The retirement benefits are
20 determined based upon a formula that includes factors such as salary history and duration of
21 employment.

22 15. “OPEB” is an acronym for “Other Post-Employment Benefits.” It includes other
23 benefits, besides pension benefits, available to eligible retirees and, in some cases, their beneficiaries.
24 Medical benefits are a major component of OPEB.

25 16. “GASB” refers to the Governmental Accounting Standards Board. GASB is an
26 independent organization that establishes and improves accounting standards for local governments
27 in the United States. Around 2004, GASB issued standards requiring state and local governments to
28 disclose their OPEB UAALs.

1 **Contract and Retirement Bargaining**

2 17. I was and am personally involved in AFSCME Local 101's negotiations over
3 retirement benefits including negotiations regarding the City of San José ("City") proposal that
4 resulted in Measure B. I am familiar with Measure B.

5 18. While I recall hearing people refer to Alex Gurza and seeing him present information
6 to the city council, I do not remember Alex Gurza being directly involved in the negotiations related
7 to Measure B.

8 19. In the past, the City has improved employees' retirement benefits. For example, in
9 1975, the City increased the Federated City Employees' Retirement Plan's ("Federated Plan") benefits
10 formula to 2.5% of final compensation for each year of service. Previously, it was 2% for each year
11 of service for the first 20 years with additional 1.0% to 1.3% for additional years. (Gurza Decl., Exh.
12 1, p. 14.) Furthermore, in 1984 and 1986 respectively, the City extended medical and dental benefits
13 to members of the Federated City Employees' Retirement System ("System" or "Federated System").
14 (*Id.*)

15 20. However, prior to Measure B, I am not aware of the City ever having cut benefits
16 owing to members of the Federated System. (*See also* Gurza Decl., Exh. 1, p. 14.)

17 **Substance of Measure B**

18 21. Measure B requires City's employees who elect to retain the pension plan in which
19 they have worked and accrued benefits to make additional contributions in increments of 4% of
20 pensionable pay per year up to a maximum of 16% of pensionable pay per year for the purpose of
21 funding up to 50% of the cost of the City's pension UAALs. (Section 1506-A.) In the alternative,
22 City employees who cannot afford these wage deductions may enroll in an alternative plan providing
23 them with a substantially lower level of benefits. (Section 1507-A.) However, the choice to take the
24 alternative plan must receive IRS approval before workers can choose to take that option. IRS
25 approval is by no means a given in this case, which would leave all workers with up to 16% of pay
26 going toward increased pension contributions.

27 22. I have reviewed the actuarial reports provided to the City, many of which were
28 included as exhibits to Alex Gurza's declaration, and I was unable to locate any language within

1 suggesting that the City adopted the contribution rates specified by Section 1506-A of Measure B and
2 described above. Based on this fact, I conclude that the City did not set those contribution rates
3 based upon the recommendation of the plan actuary.

4 23. Section 1506-A of Measure B imposes a liability on employees and retirees for
5 benefits they have already earned and for which they have already paid (through contributions made
6 at the time the service was earned). Imposition of obligations associated with the Systems' UAALs
7 necessarily means that employees are required to pay for their benefits twice: once when such
8 benefits are earned (paying their share of the normal cost) and again as a result of funding
9 deficiencies and the City's own decisions as to how to allocate its budget and direct investments
10 within the Plan (paying past service UAALs).

11 24. Furthermore, Measure B diminishes the value of active members' contributions to the
12 Federated Plan and also diminishes the value of their benefits already earned and accrued to date in
13 several ways. For example, Section 1507-A(b)(iv) pushes back active employees' eligibility for
14 retirement by six months annually. As a result, active employees will receive the same level of
15 benefits for their past service at a date further in the future than they would have in the absence of
16 Measure B, and they will receive payments for less months.

17 25. In other words, the present value of benefits received both later in time and with a
18 reduced number of payments is lower than the present value of the same level of benefits received
19 earlier in time. Therefore, the value of active employees' contributions for past service into the
20 Federated City Employees' Retirement System ("System" or "Federated System") and of the benefits
21 already earned and accrued to date are lower than what they would be in the absence of Measure B.
22 Employees were required by the city charter to contribute 3/11ths of the normal cost in the past.
23 (Charter Section 1505.) However, if those normal costs had been calculated using a later retirement
24 date in past years, fewer contributions would have been required from employees. Furthermore,
25 employees will have to wait much longer to start receiving benefits under Measure B than previously.
26 In this regard, Measure B is contrary to the purpose and accepted understanding of a DB Plan:
27 providing retirees with a predetermined pension benefit based upon such factors as length of service.
28

1 By altering the value of benefits owing to employees for past service, the City reduces the true value
2 of the monies to which they are entitled based upon these actuarial formulas.

3 26. Such a situation is analogous to a mortgagee allowing a borrower to delay payment on
4 a given mortgage principle for five years and to make payments for five fewer years. Such an
5 arrangement would result in a significant reduction in the value of total amount paid than if payment
6 commenced today and lasted for the entire term of payment. No financial institution would see this
7 alteration as being of equal value, nor would they freely agree to such a modification, as they well
8 understand the reduction in value.

9 27. Also, each year of delayed retirement results in a decrease in value of pension benefits
10 owing to an eligible employee. By way of comparison, the state of Washington calculated that a
11 public employee who retires ten years early loses around forty percent of his/her total retirement
12 benefit. (Exh. 2.) This translates to roughly a 6% decrease in pension benefits per year for someone
13 who retires ten years earlier. The Legislature of the State of Washington maintains the
14 aforementioned document on its official website. Such a report is relied-upon by experts of the trade.
15 A true and correct copy of the document is attached as Exh. 2.

16 28. Additionally, Towers/Watson, a leading global professional services company,
17 estimates a six percent per year reduction for an employee who retires ten years early at 55. (Exh. 3.)
18 Tower/Watson is well-regarded in the industry and its reports are relied-upon by experts of the trade.
19 A true and correct copy of the report is attached as Exhibit 3.

20 29. Meanwhile, the additional required years of service prior to service retirement
21 required by Measure B also mandates further contributions from employees.

22 30. Measure B also reduces the Cost of Living Adjustments ("COLA") owing for an
23 active employee's past service, regardless of whether the employee opts-into the "Voluntary Election
24 Program" ("VEP"). (Sections 1507-A(b)(v), 1510-A.) It also gives the City Council the discretion to
25 suspend COLA payments in certain circumstances. (*Id.*) As a result, Measure B again decreases the
26 stream of benefit payments that was guaranteed before its adoption and makes it very likely that a
27 retiree's pension benefits will not keep pace with inflation over time. In the past, employees'
28 contributions were also determined assuming that the COLA would be paid according to plan terms.

1 **Differentiating Wage Reductions and Increased Benefits Contributions**

2 31. In response to the rise in the liabilities attributable to the Federated System, the City
3 imposed on AFSCME members a wage reduction amounting to more than twelve percent of pay as a
4 component of its last, best, and final offer related to contract negotiations in 2011. AFSCME did not
5 agree to this, as the term "imposed" indicates.

6 32. The City's contribution rate grew from 15.3% in fiscal year ("FY") 2001 to 28.3% in
7 fiscal year ("FY") 2012. (Gurza Decl., Exh. 58, p. 7.) This represents a percentage rise of about 13%
8 of pay.

9 33. Consequently, AFSCME members now bear the burden of financing about 92% of the
10 increased costs of pension benefits to that point in time. I computed this sum by dividing 12%, the
11 approximate wage reduction described above, by 13%, the approximate rise in the pension
12 contribution rate between 2001 and 2012.

13 34. As is explained below, the City did not count such sacrifices as part of AFSCME's
14 members' efforts to help the Federated System regain solvency.

15 35. For various reasons, cutting employee pay for the purpose of funding retirement
16 benefits is not equivalent to requiring increased employee contributions towards retirement benefits,
17 and AFSCME has never treated the two as interchangeable. Essentially, pension benefits constitute a
18 percentage of the base salaries retirees received while they were working. Therefore, decreasing
19 active employees' wages lowers the future promised pension benefit owing them, i.e. it lowers their
20 final average wages for purposes of calculating retirement benefit levels. As a result, it reduces the
21 normal cost of the benefits, or the present value of benefits earned over the course of the year in
22 question.

23 36. In addition, wage reductions for active employees do not affect the final compensation
24 with which retirees left service, so such reductions do not affect a plan's UAALs with respect to
25 retirees. However, wage reductions do, marginally, reduce a plan's UAALs over time with respect to
26 benefits already earned by current employees. Again, this is because decreasing wages may result in
27 a decrease in the employees' final compensation, as defined by the retirement plan, with respect to
28 the computation of the pension annuity at retirement. As a result, lowering wages only marginally

1 reduces a plan's UAALs for current employees to the extent that the employees have not yet reached
2 what would be their highest three years of salary.

3 37. However, higher employee contributions towards pensions (as required by Section
4 1506-A of Measure B) are deducted from pensionable wages and do not effect the employees'
5 highest average pay. Therefore, while pay cuts effect employees' pensionable wages, higher
6 contributions towards retirement benefits do not. These higher contributions simply replace
7 contributions that should be made by the employer.

8 38. When the City requires its employees to make increased contributions into its
9 retirement plans rather than cutting their pay, its compensation structure becomes more heavily tilted
10 towards retirement benefits. The difference might often seem negligible to the parties involved, as
11 the pay cuts or higher contributions discussed are typically less than 3% of pay. However, in this
12 case, with pension contributions possibly increasing by 16% of pay, it becomes possible for
13 employees to pay more than 32% of their pay towards retirement benefits but still to draw pension
14 benefits based upon their full, pre-contribution pay. On the other hand, when the City cuts its
15 employees' wages, the employees draw lower levels of pension benefits based upon this smaller
16 income.

17 39. With respect to the 32% of pay figure cited above, FY 2014 can be used as an
18 example. In FY 2014, Federated member pension contributions are estimated at 5.97% of income,
19 VEP contributions are estimated at 16% of income (once fully phased-in), and the FY 2014 OPEB
20 contributions are expected to be 10.74% of income. (City's RJN B; Gurza Decl., Exh. 58, pp. ii, 5;
21 Gurza Decl., Exh. 60, p. 9.)

22 40. Furthermore, Measure B requires City employees to pay up to half of the Systems'
23 unfunded liabilities. (Section 1506-A.) However, any wage concessions/pay-cuts already realized,
24 and those that the City may impose on AFSCME members in the future, do not count towards this
25 requirement. As a result, pursuant to Section 1506-A, AFSCME members will eventually pay 4-6%
26 of their salaries towards financing the normal costs of pension benefits¹ and up to 16% of pay toward
27

28 ¹ This is the historic range for normal costs.

1 the System's UAAL; this is in addition to the 12%+ pay cut that the City imposed on them in 2011
2 that the city stated was to address retirement costs.

3 41. I am not aware of any benefits, above that too which they are already entitled, the City
4 has extended to its employees in exchange for the benefits reductions affected by Measure B.

5 42. It therefore cannot be said that the changes Measure B makes to employee pension and
6 retirement come with any commensurate benefit or that the detriment produced by Measure B is
7 offset in any way.

8 **The Effect of a Declining Payroll**

9 43. The increase in the City's contribution rate as a percentage of payroll is largely driven
10 by a decreasing Tier 1 (current employee tier) payroll. This fact is also acknowledged in Cheiron's
11 actuarial valuation. (See, e.g., Gurza Decl. Exh. 58, p. iii ("The large increase in the contribution rate
12 is mainly due to decreasing Tier 1 payroll which causes the unfunded accrued liabilities to
13 increase.")) Such cuts heavily impact the amortization of the City's unfunded liabilities. (See, e.g.,
14 *ibid.*) When the City reduces its payroll, its pension contribution rate spikes as measured by a
15 percentage of payroll; this is because pension costs are less affected by changes in payroll than
16 payroll itself (as much of the costs are legacy costs) and because pension contributions are being
17 measured against a smaller payroll.

18 44. The City's Federated payroll fell from \$323 million in fiscal year 2009 to \$240 million
19 in fiscal year 2013. (See, e.g., Gurza Decl., Exh. 58, pp. ii-iii, 28.) Although actuaries predicted
20 payroll to increase during this time (Exh. 4 (Cheiron's Actuarial Valuation re Federated City
21 Employees' Retirement System, June 30, 2010), p. 15), payroll decreased approximately 26%. (I
22 arrived at this percentage with a calculation involving the \$323 million and \$240 million figures
23 above.) Tier 1 payroll is projected to further fall to \$205 million in 2014. (Gurza Decl., Exh. 58, pp.
24 ii-iii, 28.) Tier 1 payroll would have to be increased by roughly 85% in FY 2014 to be equal to what
25 was being projected in 2009. This is based upon payroll of \$323 million in 2009, five years of
26 growth at 3.25% per year (yielding an expectation payroll at \$379 million), and the percentage
27 increase of \$205 million required to equal the projections of only a few years ago.

1 45. There is also something of a domino effect, where employee attrition increases
2 because vested employees leave service for better opportunities or retire earlier than planned due to
3 diminished wages or the impact of diminished wages on their pension annuity calculation . In fiscal
4 year 2012, the Federated System's pension costs increased by approximately \$23,934,000 due to
5 earlier-than-expected retirements. (Here "expected" means the historical and actuarially-derived
6 assumptions adopted by the retirement board on advice of plan actuaries.) (Gurza Decl., Exh. 58, p.
7 19.) In fiscal year 2011, the Federated System's pension costs increased by about \$34,778,000 due to
8 early retirements. (Exh. 5 (Cheiron's Actuarial Valuation re Federated City Employees' Retirement
9 System, June 30, 2011-November 2011), p. 17.) Together, the City experienced losses of about
10 \$58.7 million in 2011 and 2012 due to early retirements alone.

11 46. However, earlier Cheiron valuations did not even report any increase in pension costs
12 due to early retirement as a separate item. (See, e.g., Exh. 4.) For a variety of reasons, workers
13 generally tended to work past the date of initial retirement eligibility. For instance, workers often
14 liked their jobs and do not mind staying in them longer than is required. This no longer seems to be
15 the case. In FY 2009, the Federated plan reported 112 retirements during the year. During the
16 Measure B campaign, and following the large pay reduction, the number of new retirees during FY
17 2011 rose to 307. Despite the flood of retirements in FY 2011, new retirements remained high in FY
18 2012, with 176 deciding to retire. (The names of retirees are reported at the end of the Federated plan
19 Comprehensive Annual Financial Reports ("CAFR"), and the specific figures were obtained by
20 counting the names shown in the FY 2011 CAFR and the FY 2009 CAFR.)

21 47. These earlier-than-expected retirements would have a similar effect on OPEB
22 liabilities, inflating costs and decreasing plan payroll as one pays in for fewer years and receives
23 benefits for more years by retiring earlier.

24 48. In sum, earlier than anticipated retirements represents a form of unexpected adverse
25 selection with the following effects: (1) elimination of expected revenue streams because the
26 percentage of early retirees' wages are no longer contributed to the plan; (2) loss of time-value of
27 such contributions (or investment returns); (3) longer retirement periods; and, most importantly (4)
28 increased plan liabilities from earlier-than-anticipated benefits payments with respect to the early

1 retirees; (5) dramatic gains in OPEB UAAL (as early retirees are not Medicare eligible); and (6)
2 where early retirees are not replaced, as is often the case here, the resulting attrition means a smaller
3 base of contributing employees and plan payroll over which to pay for the promised benefits.

4 49. For active employees who must work under the terms imposed by Measure B, the
5 affects of obligating them to assume responsibility for financing UAALs, for the first time and in this
6 context, are especially pronounced. They are required to shoulder the burden of UAALs associated
7 with not only their own, but also current retirees' service. The obligation for active employees
8 balloons when, as indicated above, the plan suffers an exodus of early retirees.

9 50. In addition to the above, Measure B both closes off the current tier to new hires and
10 imposes the cost of UAALs on active employees. Because Measure B closes off the current tier
11 pension plan to new hires (sections 1506-A—1508-A), it further creates a spike in contribution rates
12 associated with current employees (Gurza Decl., Exh. 58, p. 5) as the future payroll of those
13 remaining in Tier 1 shrinks and is used to amortize unfunded liabilities. When the City closes Tier 1
14 no future participants will join the tier to help pay off its unfunded liabilities, and new hires start with
15 a clean slate. Resultantly, the percentage of pay required to pay off the unfunded liabilities will
16 continue to rise dramatically for the individuals remaining within the tier, until the cap of 16% of pay
17 is hit after 4 years. This will assure that additional employee contributions that would help pay off
18 the unfunded pension obligations would certainly be at 16% within four years, and remain there
19 thereafter.

20 51. Measure B also permits active employees to enroll in the VEP alternate retirement
21 plan. (Sections 1507-A.) Individuals who do so are no longer within the Tier 1 plan; this will also
22 lead to a diminishing payroll within the Tier 1 plan and increase the burden on those remaining
23 within the plan to cover the cost of its liabilities.

24 52. By closing off the Tier 1 plan to new hires, Measure B guarantees that the City's
25 contribution level as a percentage of its payroll will continue to increase since its Tier 1 payroll will
26 continue to shrink.

27 53. Furthermore, the City benefits from its smaller payroll by paying the normal cost of
28 retirement benefits on the lower Tier 1 payroll. (Gurza Decl., Exh. 58, p. iii.) Cost avoidance of

1 future service accruals is equal to payroll cuts times normal cost. The normal cost of the City's Tier
2 1 pension contribution rates for fiscal year 2013 is approximately 15%, and it is approximately
3 15.61% for 2014. (Gurza Decl., Exh. 58, p. 4.) Therefore, for every \$100 of payroll the City cuts, it
4 saves \$15-\$15.61 per year for someone who would have been in Tier 1 during this time.

5 54. By cutting its payroll by approximately \$83 million between 2009 and 2013
6 (difference between \$323 million payroll in 2009 and \$240 million payroll in 2013), the City saved
7 approximately \$11 to \$13 million in normal cost pension contributions. I arrived at the high-end \$13
8 million figure by multiplying this savings amount by 15.61%, or the percentage of the City's
9 contribution rates attributable to normal costs in FY end 2014. (Gurza Decl. Exh. 58, p. 4.) I arrived
10 at the low-end approximate figure by multiplying the savings amount by 12.76%, or the percentage of
11 the City's contribution rates attributable to normal costs in fiscal year end ("FYE") 2012. (Exh. 4, p. i
12 (LETTER OF TRANSMITTAL).)

13 55. In summary, the City has greatly contributed to the escalation of its pension
14 contribution rates (as measured by a percentage of payroll) by imposing huge pay cuts, instituting
15 numerous layoffs, taking actions that created a wave of earlier-than-anticipated retirements, and
16 excluding future workers from future payroll.

17 **True State of Federated Pension Plans**

18 56. As will be demonstrated below, during this same time--June 30, 2009 through June 30,
19 2012--the City's pension AALs increased at a much lower percentage than its contributions did.

20 57. The City's pension contributions as a percentage of payroll rose from 15.3% in FY
21 2001 to 18.3% in FY 2009 to 25.8% in FY 2011 to 28.3% in FY 2012. (Gurza Decl., Exh. 58, p. 7.)
22 City contribution rates are up to around 44.5% of payroll in FY 2013 and projected to be 55.3% of
23 payroll in FY 2014. (Gurza Decl., Exh. 58, p. 7.) This represents about a 55% increase from FYs
24 2009 through 2012 and a 170% increase by FY 2014.

25 58. However, its pension contributions for the corresponding years only rose from
26 \$84.787 million in 2011 to \$111.343 million (assuming continuation of SRBR) in 2014. (Exh. 4, pp. i
27 ("Letter of Transmittal"), 18; Gurza Decl., Exh. 58, p. ii.) That represents a 31% increase in
28 contributions during that time. Without the SRBR, its estimated pension contributions in 2014 are

1 even lower: \$102.470 million. (Gurza Decl., Exh. 58, p. ii.) This represents about a 20% increase in
2 contributions during that time. And, again, this ignores the impact of 12% pay cuts imposed upon
3 current workers.

4 59. However, the Federated System's pension normal cost was about just 20.55% of pay
5 for as of June 30, 2011, (Exh. 5, p. 17) and its retiree healthcare accruals were worth 5.44% of pay
6 for FY 2011-2012, including the portion paid by employees. (Exh. 6 (2011 Cheiron OPEB Valuation
7 Report), p. 10.)

8 60. Its pension assets rose from \$1.757 billion in 2009 to \$1.762 billion in 2012. (Gurza
9 Decl., Exh. 58, p. 28.) That is approximately a 0% increase.

10 61. However, the City's AALs only grew from \$2.486 billion on June 30, 2009, to \$2.884
11 billion on June 30, 2012. (Gurza Decl., Exh. 58, p. 28.) While its contribution rate grew by 55%
12 between FYs 2009 and 2012 (as stated above), its AALs only increased 16% during that same time.

13 62. Furthermore, both retirement systems incurred more than \$765 million in investment
14 losses during fiscal years 2008-2009 and \$214 million dollars in losses during the previous year.
15 (Gurza Decl., Exh. 1, p. 35.) Additionally, UAALs increased by about \$750 million because
16 actuarial assumptions that were used to cost out the plan were changed. (*Id.* at 38.)

17 63. Included in the aforementioned increase in the Federated Plan's UAALs were changes
18 in actuarial assumptions that did not impact actual plan payouts and only affected the way they are
19 funded. These include changes made in 2011 that increased the City's UAALs by \$187 million.
20 (Exh. 5, p. 17.) Therefore, the City's pension UAALs increased by about \$400 million between June
21 30, 2009, and June 30, 2012, with at least \$187 million in that increase attributable to assumption
22 changes.

23 64. The lower a plan sets its discount rate, the less it expects in returns on its investments.
24 Since investment income helps finance a retirement plan's liabilities, a lower discount rate requires
25 higher party payments towards its retirement obligations than if it were to adopt a higher discount
26 rate. The City lowered the discount rate for its pension plan from 8.25% prior to 2009 to 7.5% in
27 2011-2012. (Decl. Gurza, Exh. 58, pp. 14, 28.)

1 **Cost of Living Adjustment**

2 65. Even before the formal change to a guaranteed three percent annual COLA in 2006,
3 the System often paid out a three percent COLA each year; prior to the change, the Federated Plan
4 had a 'banked' feature, meaning that if the Consumer Price Index ("CPI") exceeded three percent in a
5 given year, the difference was banked and would be used in a year when the CPI was under three
6 percent. (Exh. 7 (2006 Gurza Memo Advocating Flat 3% COLA), p. 1.) The aforementioned
7 memorandum, labeled **Exhibit 7**, was produced by the City, and the Union maintains it in the regular
8 course of business. A true and correct copy of the memorandum is attached as **Exhibit 7**.

9 66. The aforementioned 'banked' feature had the effect of smoothing out inflationary
10 volatility and ensured that retirees could expect a consistent 3% COLA each year. In years since the
11 change to a consistent 3% COLA, the banked amount would have helped to increase the COLA
12 during years when CPI increased less than 3%. Only in times of persistent low inflation, and after the
13 banked CPI was exhausted, would this not happen.

14 67. I produced a chart, a true and correct copy of which is attached as **Exhibit 8**,
15 demonstrating the annual changes in the cost of living since 1975 based upon yearly changes in the
16 Consumer Price Index ("CPI"). This chart is based upon data from the federal Bureau of Labor
17 Statistics, the principal fact-finding agency for the Federal Government in the broad field of labor
18 economics and statistics and the agency that publishes CPI data. Since 1975, the average yearly
19 increases in both the CPI-U and the CPI-W have been close to 4%.

20 68. While the Federated Plan may have paid smaller COLAs in some recent years, it
21 historically operated under the assumption that future COLAs would be three percent, which led the
22 plan actuary to claim that this change would not affect contributions when this was adopted. (See
23 Exh. 7, p.2; see also Exhibit 8.) Basically, the decision was to pay a COLA equal to what was
24 assumed in the funding mechanism. This had the appearance of no cost (as actual outcomes would
25 equal expected outcomes in the future). In truth, this means the plan would not benefit from
26 experience gains from time to time; however, the change did not create experience losses – as it set
27 the actual benefit equal to plan assumptions. That means that this assumption was incorporated into
28 calculating the normal cost of the COLA component of the benefit. In other words, current

1 employees who have been contributing to the plan during their employment have paid for this
2 benefit. In any event, the fixed three percent COLA has not created 'experience losses' for the Plan.
3 'Experience losses' occur when actuarial assumptions are not fully realized.

4 69. In fact, based upon the historical rise in the cost-of-living as demonstrated in Exhibit
5 8, retirees received less than the true increase in the CPI based upon a fixed 3% COLA.

6 70. In the years following the City's adjustment in the COLA formula (as described
7 above), the City's contribution rate did not change as a result of the formula adjustment. (Exh. 9
8 (2012 Federated CAFR), p. 101.) Since then, the City has not made any benefit changes that affected
9 Plan liabilities whatsoever. (*Ibid.*; Gurza Decl, Exh. 1, p. 14) The aforementioned document, **Exhibit**
10 **9**, was prepared for the Trustees of the Federated System and is available on the City's public
11 website.

12 **Retiree Healthcare**

13 71. In addition to the 12%+ wage reductions on AFSCME members, the City has cut its
14 payroll drastically as previously discussed. (Gurza Decl., Exh. 58, p. 28 (showing plan payroll peak at
15 around \$323 million in 2009 and at \$226 million as of August 30, 2012, an amount less than plan
16 payroll in 2001).) As a result, AFSCME members' retiree health care contributions, as a percentage
17 of pay, have escalated. This is because when the workforce shrinks, the pool of wages on which
18 contributions is based also shrinks, although the City is still liable for payment of benefits to all
19 vested employees and retirees. Where the City has adopted a prefunding model, it necessarily
20 obligates itself to increase its contributions and/or, as does Measure B, impose on the remaining
21 employees' greater contributions towards funding the retirees' benefits. This is the very definition of
22 an "inter-generational" transfer that Measure B specifically seeks to avoid. (See Section 1513-
23 A(c)(ii)).

24 72. GASB does not require government entities to prefund retiree healthcare plans; it only
25 requires that public entities disclose their unfunded liabilities, though accounting rules do incentivize
26 prefunding. San José is one of the few jurisdictions that decided to prefund its retiree healthcare
27 plans. However, the City does not prefund its plan based on GASB assumptions; instead, it opts to
28 use its own set of funding assumptions. As written, Measure B requires prefunding.

1 73. Prefunding substantially increases the burden on active employees of financing retiree
2 health because it requires that they pay half of the costs of retirement benefits for themselves as well
3 as their predecessors and those who have retired and are receiving the benefit. It also shifts to them
4 the liability associated with imperfect actuarial predictions for both their benefits and those of current
5 retirees, including predictions related to longevity and health care cost inflation.

6 74. As a result, active employees will be required to pay more into the Federated System
7 than the value of their own benefit accruals, or the normal costs of their retirement benefits going-
8 forward. Their share of contributions also escalates more quickly as more people retire earlier than
9 anticipated, and more so where retirees are not replaced with new hires, as has been the case with San
10 José.

11 75. However, the annual benefit payments paid from the City's retiree healthcare plans do
12 not change simply because it prefunds. The change in the City's *reported* liabilities is due to a quirk
13 in the GASB reporting standards by which the City may apply a higher discount rate in reporting its
14 liabilities if it prefunds benefits. (*See* Gurza Decl., Exh. 60, p. 10.) Meanwhile, the City's funding
15 mechanism ignores this quirk.

16 76. For example, for the fiscal year ending 2013, the City would report its Federated
17 health plan's liabilities using a discount rate of 3.3% if its contributions were made on a pay-as-you-
18 go basis. (Gurza Decl., Exh. 60, p. 10.) If the city were fully prefunding its Federated health plan, the
19 City would utilize a much higher 7.5% discount rate for GASB reporting purposes. (*Id.*) For the
20 reasons previously articulated, the City's reported GASB liabilities would appear smaller if it were to
21 prefund its Federated health plan, thereby utilizing the higher discount rate. Therefore, GASB
22 provides a major incentive towards prefunding.

23 77. Because the full ARC for retiree healthcare would not be contributed in FYE 2013, the
24 City will use a blended discount rate of 4.8% for reporting purposes. (Gurza Decl., Exh. 60, p. 10.) It
25 may move to a higher discount rate once it transitions into full prefunding. (*See id.*) Full prefunding is
26 currently scheduled to kick in for 2013-2014. (*Id.*, p. 7.)

27 78. Even though the Federated health plan is using a 4.8% GASB reporting discount rate,
28 its discount rate for funding purposes remained at 7.5%. (Gurza Decl., Exh. 60, p. 3.) Because of its

1 lower discount rate, it will report a much higher level of UAALs than it would with its 7.5% funding
2 discount rate.

3 79. The true cost of retiree healthcare is the cash flow necessary to pay benefits, and the
4 cash flow necessary to pay those benefits does not change by prefunding. Rather, prefunding simply
5 accelerates payment for future benefit, and allows for higher investment earnings. In other words, the
6 Federated System has the same level of liabilities that have to be paid. Prefunding does not change
7 that level; it merely accelerates payment of those liabilities and allows early payments to be invested
8 to earn investment returns.

9 ***The Union's 2009 agreement to share in "Prefunding" Retiree Health***

10 80. The City contends that Measure B simply puts into place the various Unions' 2009
11 agreement to increase retiree health contributions in order to transition to a prefunding model.
12 Factually speaking, this contention is incorrect.

13 81. In 2009, when AFSCME agreed to prefunding and sharing the costs of retiree
14 healthcare on a one-to-one basis, it did so in an effort to preserve the benefit. In addition, in 2009 the
15 impact of a ramp-up to "pre-funding" was minimal compared to implementation of prefunding after
16 Measure B and the recent major changes in Federated Plan payroll. In fact, the City has not yet fully
17 implemented the 2009 agreement, and has recently imposed reduced benefits. As a result, Measure B
18 requires employees to pay more money for less benefits; this was never the purpose of the 2009
19 agreement.

20 82. This is because of the subsequent severe reductions to plan payroll that occurred
21 because of pay cuts, layoffs of City employees, reduction in benefits and concomitant early
22 retirement that occurred after 2009. Because of these changes in experience, City employees are
23 shouldering a much higher portion of the burden of retiree healthcare than AFSCME anticipated in
24 2009.

25 83. For example, as discussed already, the dramatic level of early retirements as a result of
26 pay cuts had a significant impact on the City's costs of retiree health because early retirees are not
27 Medicare-eligible. The pre-Medicare years are the most expensive years for retiree health purposes
28

1 because once a retiree is Medicare-eligible, the retiree health plan functions as a wrap-around plan,
2 that is, it is secondary to Medicare.

3 84. Additionally, the prefunding of retiree health benefits contributed to the lack of
4 stability of the Federated System's retiree healthcare plans. I have reviewed Cheiron's Federated
5 Postemployment Healthcare Plan's Actuarial Valuation as of January 2013, and it shows that the
6 financing of retiree health on a pay-as-you-go rather than prefunding results in lower costs through
7 2031. (Gurza Decl., Exh. 60, p. 4.) The Cheiron projection shows pay-go contributions climbing due
8 to the assumption that health costs will continue to increase more rapidly than wages, as well as
9 incorporating demographic changes. However, prefunding contribution levels immediately jump to a
10 much higher level. The difference in these contribution patterns would go into the plan as assets to
11 invest in order to pay for future benefits.

12 85. Though Measure B was publicly sold with a theme of 'sustainability', and the funding
13 section (1513-A) was written to sound as though it assured sound funding that would help guarantee
14 that funds would be there to provide benefits to city workers, after passing Measure B, the City
15 immediately proposed to the unions, including AFSCME Local 101, closing the retiree health plan to
16 new hires as amended by 1512-A of Measure B. The implementation of such a proposal would
17 further undermine the sustainability of the retiree health plan because it shifts the burden of funding
18 the plan's liabilities to an even smaller, shrinking group of active employees (just like closing the
19 Tier 1 pension plan to new hires did). Now, a much smaller pool of workers would be responsible for
20 paying half of the city's legacy retiree health costs. As those costs rise, as a percentage of payroll,
21 there would be immense pressure to devalue the benefits (including those for current retirees). The
22 contribution deal is essentially now being used as leverage to cut benefits that workers have paid for.

23 86. These factors, in addition to the ones discussed above meant that although under the
24 2009 agreement the five year ramp-up was expected to result in an increase of contributions for
25 retiree health benefits from 3% to 7%, which was deemed acceptable in order to maintain the current
26 level of retiree health benefits, by 2012 implementing the ramp-up would mean an increase in
27 employee contributions to 15.5% for the same benefits (before the benefit reduction was imposed).
28

1 87. After cuts to the retiree healthcare benefit were imposed, workers are now expecting
2 contributions to increase to 10.74% for a much lesser benefit. (Gurza Decl., Exh. 60, p. 9.)

3 88. Combining the move to prefunding, reduced payroll, and a reduction in the value of
4 benefits means that Measure B requires active employees to pay more for lesser benefits. Evidently, it
5 is not correct that Measure B's retiree health provisions are equivalent to the framework adopted in
6 2009 (which again, has not yet been fully implemented). Measure B also basically prohibits workers
7 from bargaining to address these changes, as the contribution arrangement has been put into the City
8 Charter.

9 **Supplemental Retiree Benefit Reserve**

10 89. The Supplemental Retiree Benefit Reserve ("SRBR") was functioning as designed
11 when it resulted in the distribution of "excess earnings" despite the Federated System incurring
12 unfunded liabilities. Although the SRBR was designed to siphon off "excess earnings" and distribute
13 them to retirees when actual returns exceeded what was expected, the provisions were not designed to
14 take into account the funding status of the plan. (See generally City's RJN (MuniCode 3.28.340); see
15 also Soroushian Decl., Exh. 1, p. 1.)

16 90. The SRBR was designed to be based upon short-term investment earnings, not a long-
17 term funding trajectory. Thus, one should expect higher SRBR benefit distributions to result from a
18 higher level of volatility in investments markets, not from a stronger funding ratio.

19 **City's True Economic State**

20 91. The City's governmental funds revenues grew around 12% while its governmental
21 funds spending shrank by around 12% over fiscal years 2003 through 2012. (Exh. 10 (City of San
22 José Comprehensive Annual Financial Report), p. 197.)

23 92. Furthermore, the San José-Sunnyvale-Santa Clara Gross Domestic Product ("GDP")
24 rose by 60% over that same time period. In the third quarter of 2012, the average weekly wage in
25 Santa Clara County was \$1,800. (Exh. 11 (BLS County employment and Wages report).) This
26 translates into an average yearly salary of \$93,600. The Bureau of Labor Statistics is a part of the
27 United States Department of Labor. The cited source is a reputable and reliable governmental source
28 of matters within the agency's expertise, and experts of the trade rely upon its publications.

1 93. The San Jose Metropolitan Area currently has an economy larger than that of New
2 Zealand, Peru, oil-rich Kuwait, Hungary, and other countries. (**Exh. 12** (U.S. Metro Economies
3 report).) This document was prepared by iHS, a leading global provider of critical technical
4 information, related decision-support tools and strategic and operational services. It provides
5 economic forecasts, industry analysis and market intelligence for over 200 countries and 170
6 industries, and has a staff of hundreds of expert economists and analysts worldwide. This company is
7 well-regarded in the industry and its reports relied-upon by experts of the trade. A true and correct
8 copy of the report is attached as **Exhibit 12**.

9 94. From 2002-2011, the City's Net Taxable Assessed Value, or market value of its
10 property tax base, was up by 57%, but property taxes were up only 35%. Sales taxes were up only
11 3.5% over the ten-year period, likely due to increased online sales and the general deterioration of the
12 ability to levy efficient sales taxes (e.g., taxing goods but failing to tax services in an economy
13 moving towards services). (**Exh. 13** (COTCE report).) This document is maintained on the website
14 for the Commission on the 21st Century Economy (<http://www.cotce.ca.gov>), a Commission
15 established per executive order of former Governor Schwarzenegger. A true and correct copy of the
16 report is attached as **Exhibit 13**.

17 95. The City's attempts to raise revenue have been lackluster, and its taxing mechanisms
18 have been inefficient. The City's governmental revenues were equal to 1.04% of GDP in 2002 and
19 0.73% of GDP in 2011. City revenues would have had to be 43% higher in 2011 to recoup the same
20 level of resources as existed in 2002. However, had the City raised such revenues, it may have been
21 able to effectively prefund its retiree health benefits without massive reductions in its workforce and
22 services to San Jose citizens.

23 96. The City was not forced into instituting massive layoffs, service reductions, and
24 employee compensation reductions because of the rising retirement costs and reduced revenues. It
25 could have put tax increases on the ballot to raise revenues but failed to do so. It should be noted that
26 ballot proposals calling for increased revenues passed all throughout California the past election
27 cycles.
28

1 97. The City could have also considered alternative, and legal, ways to address retirement
2 costs, such as the proposal offered by its rank-and-file unions.

3 98. By 2009, the City had faced large deficits every year for almost a decade (**Exh. 14**
4 (message from Chuck Reed)) but only blamed its employees' retirement benefits for the structural
5 defects leading to such deficits years after the troubles surfaced. The aforementioned webpage is
6 maintained by the City of San José and available for viewing by the public.

7 **LACK OF RECENT BENEFITS TO AFSCME MEMBERS**

8 99. The recent increase in the City's contribution rate towards Federated System
9 retirement benefits is largely attributable to its declining payroll, revised actuarial assumptions, and
10 investment losses. (See e.g., Exh. 5, p. 3; Exh. 9 (Federated System auditor's report for 2012), p. 57;
11 Gurza Decl., Exh 1, pp. 35-36, 38.)

12 100. 14.28% of the rise in pension contributions as a percentage of payroll from 2001
13 through 2012 was attributable to poor investment performance. 15.30% of the increase was due to
14 changes in actuarial assumption, and 6.75% was due to decreasing payroll. (Exh. 9, p. 101; Exh. 5;
15 Gurza Decl., Exh. 58, p.5.) I have created a chart based upon the afore-cited sources which displays
16 the percentage increase of the City's contribution rate since 2001 attributable to different factors such
17 as poor investment performances and decreasing payroll. (**Exh. 15.**) The Union maintains the chart
18 in its records in the regular course of business. A true and correct copy is attached as **Exhibit 15.**

19 101. The recent increase in retirement costs not attributable to employee benefits increases
20 because AFSCME members have not realized a major gain in retirement benefits since 1984 when
21 the City Council granted them medical benefits and then in 1986 when it extended to them dental
22 benefits and created the SRBR. (Gurza Decl., Exh. 1, p. 14; Gurza Decl., Exh. 58, pp. 5, 11.) That
23 was about 27 years ago.

24 102. In 1975, almost forty years ago, the City increased the benefits multiplier to 2.5%.
25 (Gurza Decl., Exh. 1, p. 14.) The City has had decades to fund any liabilities resulting from this
26 change, and anyone employed after that date would have contributed to funding the normal cost of
27 the increased benefit level.
28

1 103. The City established the Supplemental Retiree Benefit Reserve ("SRBR") in 1986.
2 (Gurza Decl., Exh. 1, p. 14.) The SRBR only constituted around four percent of the City's total
3 liabilities. (*Id.*, p. ii.) However, in recent years, when benefits were not paid from the SRBR, the cost
4 to the City of such benefits was \$0.

5 104. The SRBR does not contribute to the City's UAALs. By discontinuing the reserve, the
6 City simply reallocates SRBR monies amongst the UAALs of its other retirement plans.

7 105. Federated members also began to receive retiree dental benefits in 1986. (Gurza Decl.,
8 Exh. 1, p. 14.) They are required to pay 27% of the present value of its future normal costs and 27%
9 of the total accrued liabilities, based upon cost sharing mechanism laid out in the city charter.

10 106. The establishment of reciprocity with CalPERS had no significant effect on the City's
11 liabilities. (Gurza Decl., Exh. 1, p. 13 fn. 13.)

12 107. The redefinition of "final compensation" in 2001 as the average compensation
13 earnable for the highest twelve-month pay period of a worker's career did not result in a major
14 benefits gain for Federated System members. It increased benefits owing to *active* workers (and not
15 those retired already) by about 3.25%. This led to around a 1.51% increase in the City's contribution
16 rate in 2001 and no further increase in later years. (Exh. 9, p. 101.) The normal cost since adoption of
17 the change has reflected the change in costs, and employees have shared in that additional cost
18 according to the cost-sharing provisions that are in place (8/11ths city and 3/11ths employees). City
19 and employees have been funding this since adoption.

20 108. Despite the impact on past service, this change in the definition of "final
21 compensation" obviously did not have a material detrimental effect on the plan when granted in
22 2001. It would continue to increase the cost of future service, which would be split between both the
23 employer and employees in the same manner that pension contributions were split.

24 109. The 2006 change in the COLA to a guaranteed 3% percent annual adjustment did not
25 result in a major liability to the City for the reasons stated above.

26 110. Furthermore, Federated System members *did not receive* any retroactive benefit
27 enhancements resulting in the spike of its retirement systems' UAL's in 2009. (Gurza Decl, Exh. 1,
28 pp. 36-38.)

1 111. The actuarial and financial reports referred to in this declaration and forwarded as
2 Exhibits 4-6 and 9-10, concern the City's retirement system funds, liabilities, and contribution rates
3 to the systems for the City and employees. They are within the City's possession; they are also
4 publically available on the City's website. The auditors' reports are found at
5 <http://www.sanjosca.gov/index.aspx?nid=2421>, the Federated System's Comprehensive Annual
6 Reports are found on <http://www.sjretirement.com/Fed/Plan/CAFR.asp>, and the City's 2012
7 Comprehensive Annual Financial Report is found at
8 http://www.sanjosca.gov/archives/101/CA_RN1483.pdf. True and correct copies of said reports are
9 attached.

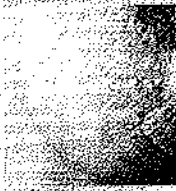
10 112. With respect to retiree health, the City has already spent most of the contributions that
11 current workers, many who have been contributing for decades, have made for past service. This is
12 typical in a pay-go funding plan, where one generation pays for the benefits of the prior generation.
13 However, in this case, it means that, since past employee contributions were already spent by the City
14 to pay for others' benefits, current workers face paying off half the liabilities for themselves and
15 retirees, and are essentially not credited with the contributions that they have already made.

16 I declare under penalty of perjury under the laws of the State of California that the foregoing
17 is true and correct and that I executed this declaration on April 30, 2013, in Washington, D.C.

18
19 Dated: April 30, 2013

20
21 By: 
22 DAN DOONAN

EXHIBIT 1



CENTER FOR
RETIREMENT
RESEARCH
AT BOSTON COLLEGE

VALUING LIABILITIES IN STATE AND LOCAL PLANS

*By Alicia H. Munnell, Richard W. Kopcke, Jean-Pierre Aubry, and Laura Quinby**

INTRODUCTION

To measure the liability of a pension plan requires discounting a stream of promised future benefits to the present. For public sector plans, what discount rate to use in this calculation is a subject of great debate. State and local plans generally follow an actuarial model and discount their liabilities by the long-term yield on the assets held in the pension fund, roughly 8 percent. Most economists contend that the discount rate should reflect the risk associated with the liabilities, and given that benefits are guaranteed under most state laws, the appropriate discount factor is a riskless rate, roughly 5 percent, as discussed below. Thus, the economists' model would produce much higher liabilities than those currently

reported on the books of states and localities. The intensity of the debate is fueled by the assumption that the magnitude of the liabilities dictates the size of the funding contribution and even how the pension fund assets should be invested.

This *brief* attempts to separate the question of valuing liabilities from the questions of funding and investment. As background, it explains the current approach to valuing liabilities in the private and public sectors. Second, it discusses why, given their guaranteed status, state and local pension liabilities should be discounted at a riskless rate and shows how much measured liabilities would increase by applying such a rate. Third, it argues that valuing liabilities is only one factor entering the funding calculation, and that using a riskless discount rate does not necessarily mean that contributions should increase immediately.

**Alicia H. Munnell is director of the Center for Retirement Research at Boston College (CRR) and the Peter F. Drucker Professor of Management Sciences at Boston College's Carroll School of Management. Richard W. Kopcke is a consultant for the CRR. Jean-Pierre Aubry and Laura Quinby are research associates at the CRR. The authors wish to thank Ian Lanaff and Michael Travaglini for helpful comments. They also wish to thank Beth Almeida for helpful comments, which she was generous enough to provide even though she disagrees with the premise of this brief.*

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In addition, it explains that selecting a discount rate and choosing whether or not to invest in risky bonds and equities are quite separate decisions. The conclusion is that whereas using a riskless rate instead of the assumed return on assets produces a very high measure of public pension liabilities, such a change does not have immediate implications for funding or investment. And adopting a riskless rate has clear advantages: it would accurately reflect the guaranteed nature of public sector benefits; it would increase the credibility of public sector accounting with private sector analysts; and it could well forestall unwise benefit increases when the stock market soars.

CURRENT APPROACH TO VALUING LIABILITIES

Valuing pension liabilities raises two questions. What should be included in liabilities? And what discount rate should be used to express those liabilities in today's dollars? The answers differ for the public and private sectors.

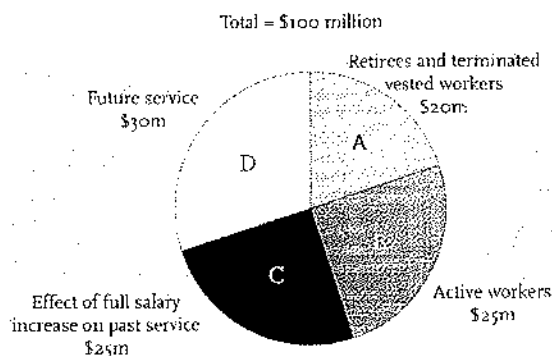
The two main liability concepts are the Projected Benefit Obligation (PBO) and the Accumulated Benefit Obligation (ABO). The PBO includes pension benefits paid to retired employees, benefits earned to date by active employees based on their current salaries and years of service, and the effect of future salary increases on the value of pension rights already earned by active workers (A+B+C in Figure 1). The ABO includes retirees' benefits and benefits earned to date by active employees (A+B in Figure 1), but it does not include the effect of future salary increases on benefits of active workers. Neither concept includes the impact of future service (D in Figure 1).

Two types of rates are used to discount liabilities. The first is the expected return on the assets held in the pension fund. The second is a modified yield curve of corporate bond rates.

PRIVATE PENSION PLANS

When the Employee Retirement Income Security Act of 1974 (ERISA) established funding standards, it followed the actuaries' approach. Actuaries recognize the liabilities associated with an ongoing plan (the PBO), and adopt expected returns to assess the ability of the assets in hand to cover future liabilities.

FIGURE 1. PRESENT VALUE OF PROJECTED BENEFITS FOR A HYPOTHETICAL PLAN



Source: Authors' illustration.

If their estimates of obligations proved too low, they revised their calculations, and the sponsor increased its contributions.

In the 1980s, a rash of bankruptcies and plan failures showed policymakers that many sponsors did not have the wherewithal to increase contributions when the return on equities fell short of expectations. These failures placed enormous pressure on the Pension Benefit Guaranty Corporation (PBGC), the agency established to insure benefits of insolvent plans. To protect the PBGC, the government in 1987 introduced an alternative minimum funding requirement. That minimum is based on a concept of benefits close to the ABO, a proxy for the benefits the PBGC insures, discounted by modified corporate bond rates to reflect the contractual nature of the guarantee (see Table 1 on the next page).¹

For their financial statements, private plan sponsors must follow guidelines established by the accounting profession. These accounting rules require that plans use the ABO to value their obligations – since the sponsor can always shut down the plan – and use a low-risk rate to reflect the plans' contractual, bond-like obligations. When reporting their current year's pension expense, however, sponsors use the PBO and a discount rate that reflects the expected return on pension fund assets.

TABLE 1. APPROACHES TO VALUING LIABILITIES, 2009

| Plan type/purpose | Governing entity | Liability concept | Discount rate |
|--------------------------------|------------------|-------------------|---|
| Private plans | | | |
| Funded status | | | |
| Actuarial | ERISA/IRC | PBO | Return on assets (7.4%) |
| Current liability ² | ERISA/IRC | ABO | Corporate bond rate ³ (5.6%) |
| Financial reporting | | | |
| Expense | SEC/FASB | PBO | Return on assets (7.4%) |
| Funded status | SEC/FASB | ABO | Corporate bond rate ⁴ (5.6%) |
| State and local plans | | | |
| Funded status | GASB | PBO | Return on assets (8.0%) |
| Financial reporting | GASB | PBO | Return on assets (8.0%) |

Sources: Governing entity and liability concepts for private plans are from American Academy of Actuaries (2004); FASB 87; and FASB 132(R). Funding data are authors' estimates based on the historical relationships between rates reported in the U.S. Department of Labor's Form 5500 Series (2000-2007) and those in Standard & Poor's (2000-2009). Reporting data for private plans from Standard & Poor's (2007). Reporting data for state and local plans are authors' calculations from Center for Retirement Research at Boston College Public Pension Database (PPD), 2009.

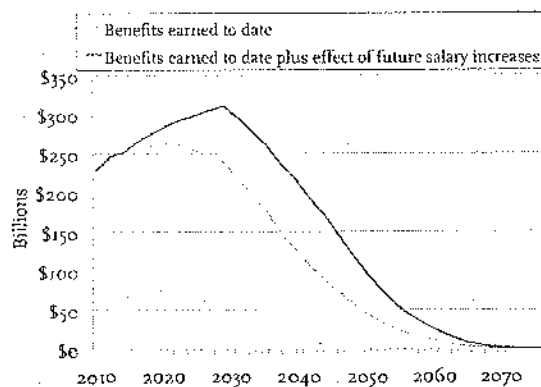
STATE AND LOCAL PENSION PLANS

In the public sector, the rules for both reporting and funding public pension plans are set out in Government Accounting Standards Board (GASB) Statements 25 and 27. GASB defines liabilities in terms of the PBO. GASB 25 states that the discount rate should be based on "an estimated long-term yield for the plan, with consideration given to the nature and mix of current and planned investments...."⁵

The use of the PBO seems appropriate for pension plans in the public sector. Benefits promised under a public plan are accorded a higher degree of protection than those under a private sector plan because, under the laws of most states, the sponsor cannot close down the plan for current participants.⁶ That is, whereas ERISA protects benefits earned to date, employees hired under a public plan have the right to earn benefits as long as their employment continues.⁷ Thus, the PBO, which includes the effect of future salary increases on the value of pension rights already earned by active workers, seems like the correct measure of liability.⁸

As shown in Figure 2, by 2020 the projected annual obligations behind the PBO for public plans are significantly greater than those behind the ABO, which makes no allowance for plans' additional obligations resulting from rising salaries in the future.

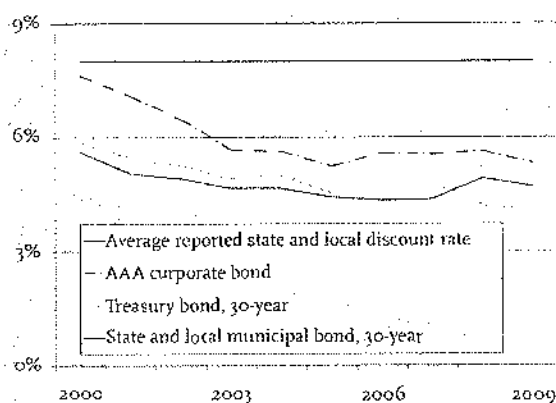
FIGURE 2. FUTURE BENEFIT OBLIGATIONS FOR CURRENT STATE/LOCAL RETIREES AND ACTIVE WORKERS, 2010-2078



Source: Authors' calculations from CRR PPD (2009), various annual reports, and actuarial valuations.

The guaranteed nature of public plans' benefits – because the sponsor cannot shut down the plan for current participants – also means that the obligations of public pension plans should be discounted at a riskless rate of interest, which typically is below the

FIGURE 3. YIELD TO MATURITY RATES OF DIFFERENT ASSETS, 2000-2009



Sources: U.S. Federal Reserve (2000-2009) and authors' calculations from CRR PPD (2001-2009).

yields that plans expect to earn on their investments (see Figure 3). This discrepancy is the nub of the controversy.⁹

VALUING LIABILITIES IN THE PUBLIC SECTOR AT THE RISKLESS RATE

For sponsors, trustees, fiduciaries, or regulators who want to measure the funded status of a going concern that will meet its obligations, the riskless rate is the appropriate discount rate.¹⁰ Using the return on the plan's assets, as GASB recommends, produces misleading results. The returns on the bonds and stocks in the pension fund include premiums to cover the risk of holding these assets. Discounting pension benefits using the expected yield on these securities implies that the entire yield is available to help pay future benefits, making no allowance for the cost of expected losses, which is represented by the risk premium. It also suggests that a rise in the risk premium improves a plan's funded status.

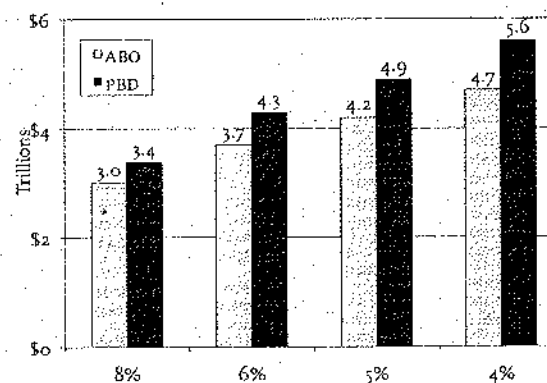
Standard financial theory suggests that future streams of payment should be discounted at a rate that reflects their risk.¹¹ In the case of state and local pension plans, the risk is the uncertainty about whether payments will need to be made. Since these benefits are protected under most state laws, the payments are, as a practical matter, guaranteed. Consequently, to assess accurately the status of a plan as a

going concern that will meet its obligations warrants discounting its stream of future benefits by the risk-free interest rate.¹²

Just what rate best represents the riskless rate is a subject of debate. Researchers have laid out some general characteristics.¹³ The rate should reflect as little risk as the liabilities themselves, be based on fully taxable securities (because pension fund returns are not subject to tax), and not have a premium for liquidity (because most pension fund liabilities are long term and do not require liquidity).¹⁴ Among the interest rates quoted in financial markets, those on Treasury securities come the closest to reflecting the yield that investors require for getting a specific sum of money in the future free of risk. Currently, the yield on 30-year Treasury bonds, about 4 percent, is likely less than the riskless rate due to the valuable liquidity they offer investors.¹⁵ Therefore, we would suggest increasing the current rate by about one percentage point and using a number of about 5 percent for 2009.¹⁶

Figure 4 shows what liabilities would look like under alternative liability concepts and interest rates. In 2009, the aggregate liability for the sample of 126 state and local plans in our database was \$3.4 trillion, calculated under the guidance provided by GASB 25 – a PBO concept and a typical discount rate of 8 percent. Assets in 2009 for these sample plans were \$2.7 trillion, yielding an unfunded liability of \$0.7 trillion. Using a riskless discount rate of 5 percent raises public sector PBO liabilities to \$4.9 trillion, which yields an unfunded liability of \$2.2 trillion.

FIGURE 4. AGGREGATE STATE AND LOCAL PENSION LIABILITY UNDER ALTERNATIVE DISCOUNT RATE ASSUMPTIONS, 2009



Source: Authors' calculations from CRR PPD.

Although the present value of plans' promised benefits depends on the choice of the discount rate, the promised benefits themselves do not. When the teachers or firefighters retire, they will get the amount calculated under the plan provisions, and how that future amount is reported today has no impact on the ultimate payment. But the choice of discount rate does matter for measuring the funded status of pension plans.

IMPLICATIONS OF A RISKLESS RATE

Valuing pension liabilities using a riskless rate is often thought to have a number of implications – some valid and some not.¹⁷ One valid implication is that such a change would probably affect the attitudes of government officials and taxpayers toward liberalizing plan provisions when plans appear to be more than fully funded. One less valid implication is that changing the valuation of liabilities would necessarily have an enormous immediate impact on required annual contributions. And a totally invalid implication is that the selection of the discount rate has any implications for appropriate investments for public plans. The following discusses each of these points in turn.

PLAN DESIGN

Recognizing the riskless nature of state and local pension liabilities could avoid the type of benefit liberalizations that took place in the 1990s, when many state and local plans appeared to be overfunded. For example, in 1999, the California Public Employees' Retirement System (CalPERS) reported that assets equaled 128 percent of liabilities, and the California legislature enhanced the benefits of both current and future employees. It reduced the retirement age, increased benefit accrual rates, and shortened the salary base for benefits to the final year's salary.¹⁸ If CalPERS liabilities had been valued at the riskless rate, the plan would have been only 88 percent funded.¹⁹ An accurate reporting of benefits to liabilities would avoid this type of expansion for current employees. Similarly, an accurate accounting of liabilities would increase the incentive for politicians to make necessary changes in retirement ages and other provisions for new employees to reflect the fact that Americans are living longer and healthier lives.

PLAN FUNDING

It is generally agreed that each generation of taxpayers should pay the full cost of the public services it receives. If a worker's compensation includes a defined benefit pension, the cost of the benefit earned in that year (the normal cost) should be recognized and funded, not deferred until the pension is paid in retirement.²⁰ The discipline of making state and local governments pay the annual costs also discourages governments from awarding excessively generous pensions in lieu of current wages.²¹

Reducing the discount rate from about 8 percent to 5 percent would raise the present value of benefits and increase the employer's normal cost from about 7 percent to about 15 percent of payroll (assuming the employer paid this full increment).²² Since payrolls account for about 28 percent of state and local budgets, in normal times, the increase would be significant, but manageable. Higher normal cost payments will ensure that adequate reserves are put aside for today's workers.

States and localities also have unfunded pension obligations because either 1) they did not put away money at the time the benefits were earned or provided benefits retroactively; or 2) the value of plans' assets dropped unexpectedly. The cost of these unfunded liabilities also needs to be distributed in some equitable fashion. As discussed above, with no change in the amortization period, the adoption of a 5-percent discount rate would increase the unfunded liability from \$0.7 trillion to \$2.2 trillion and thereby substantially increase the required amortization payment. But, in reality, what would such a change mean? Under current circumstances, states and localities are not in any position to double or triple their contributions. Therefore, implementation of any change would have to wait until the economy and markets recover. Moreover, changing the discount rate would have to be considered by the community of actuaries, accountants, and sponsors in the context of other changes, such as perhaps extending the amortization period from 30 to 40 years.²³ That is, an increase in the measure of the unfunded liability need not automatically translate into an immediate and intolerable increase in annual amortization payments for states and localities.

PLAN INVESTMENTS

The choice of a discount rate for valuing liabilities does not limit the selection of a plan's assets. This view conflicts with those who contend that not only should liabilities be discounted by the riskless rate, but also that public plans should not be invested in risky assets. They argue that higher assumed returns allow taxpayers today to make lower contributions. If the anticipated returns do not materialize, assets will be inadequate and future taxpayers will be on the hook to make up the difference.²⁴ So proponents of this argument contend that plan sponsors should invest only in riskless assets.

The problem with this argument is that it assumes a most extreme degree of risk aversion. If sponsors of public plans were averse to all risk, they would require the pension funds to hold only Treasury securities. But when sponsors are willing to take at least as much risk as the average investor, the premiums on bonds and stocks cover their cost of holding these investments.

If sponsors of public plans are more willing and able to bear risk than the average investor – because they are perpetual entities and have the power to tax – then the premiums on stocks and bonds will exceed the risk premiums they require. This “surplus” return reduces taxpayers’ net cost of paying future pension liabilities. That is, the value of stocks and bonds to the pension funds exceeds their market value by an amount reflecting the present value of this surplus return.²⁵

While discounting pension funds’ liabilities by the expected returns on their portfolios overstates their funded status, measures that ignore the surplus return could understate their funded status. Nevertheless, a clear understanding of the status of a pension fund requires calculating the present value of liabilities using the riskless rate. It also requires the explicit assessment of surplus returns, considering their size, timing, and risks. Plans can then adjust their funding strategies to reflect these surplus returns. One possible adjustment is to aim for less than 100-percent funding. The point here is that if pension funds hold only riskless assets, they cannot earn a surplus return.

CONCLUSION

The argument is compelling that the liabilities of public pension plans, which are guaranteed under state law, should be discounted by a rate that reflects their riskless nature. Such a change would produce a large number. Liabilities would rise from \$3.4 trillion to \$4.9 trillion, and with \$2.7 trillion of assets on hand, unfunded liabilities would rise from \$0.7 trillion to \$2.2 trillion.

What difference does such a change make? First, a more realistic measure of the funded status of the plans would deter plans from offering more generous benefits in response to supposed excess assets. Second, it would increase the required payment for normal costs, which would have an immediate, but manageable impact on the budgets of states and localities. In terms of the amortization payments, a change in the discount rate will increase the amount to be amortized, but the timing of the payments is a policy decision. Finally, discounting by a riskless rate does not imply that plans should hold only riskless assets. Managers of state and local plans could continue to invest in equities and other risky assets. If the returns on these assets resemble their long-run historical performance, plans’ unfunded liabilities would be paid off more quickly than anticipated, as the gains on their assets exceed the returns on Treasury securities.

Resolving the discount-rate debate would increase the confidence of private sector observers in the reports of state and local pension funds.

ENDNOTES

- 1 The concept used by the PBGC is "current liabilities," which differs from the ABO in two ways. First, it requires a specific mortality table and, second, it mandates that the discount rate be a four-year weighted average of the 30-year Treasury rate (McGill et al., 2010).
- 2 ERISA and the Internal Revenue Code (IRC) require plan sponsors to report funding information to the Department of Labor, the PBGC, and the Internal Revenue Service (IRS); the agencies develop a joint report: Form 5500.
- 3 The IRS publishes interest rates, which, in the wake of the Pension Protection Act of 2006, consist of segment rates to reflect the timing of the plan's liabilities. The numbers reported in the table are the weighted average for these segments.
- 4 Financial Accounting Standards Board (FASB) 87 allows plans to choose a discount rate from among several corporate bond measures.
- 5 Statement 25 is titled "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." Statement 27 is titled "Accounting for Pensions by State and Local Governmental Employers." The provisions of GASB 25 and 27 became effective June 15, 1996.
- 6 National Conference on Public Employee Retirement Systems (2010).
- 7 Steffen (2001). Assuming that employers are constitutionally barred from changing all benefit provisions slightly overstates the riskless nature of public liabilities, since some states and localities can alter the Cost-of-Living Adjustment (COLA) that they grant beneficiaries from year to year. However, a survey of the 126 plans in the CRR PPD shows that plans offering ad hoc COLAs account for only 20 percent of aggregate accrued liability. Discounting ad hoc COLAs at 8 percent, rather than the risk-free rate, does not significantly alter the percent increase in liabilities.
- 8 This assessment differs from that of Bruwn and Wilcox (2009), Novy-Marx and Rauh (2009a), and Bulow (1982), who argue that the ABO is the preferred concept because it puts pension accruals on the same basis as wages and salaries.
- 9 For more details, see Bronner (2008); Bader and Gold (2003); Gold and Latter (2008); Novy-Marx and Rauh (2009b); and Arnott (2005).
- 10 For example, regulators do not mark down the value of banks' and insurance companies' liabilities when risk premiums rise. To do so would overstate their solvency. This logic is behind Biggs' (2010) use of options to measure plans' funded status. The options formula discounts a plan's obligations at the riskless rate.
- 11 In economics and finance, the analysis of choice under uncertainty identifies the discount rate for riskless payoffs with the riskless rate of interest. See Gallier (2001) and Luenberger (1997). This correspondence underlies much of the current theory and practice for the pricing of risky assets and the setting of risk premiums. See Sharpe, Alexander, and Bailey (2003); Bodie, Merton, and Cheeton (2008); and Benninga (2008).
- 12 Such an approach has been adopted by other public or semi-public plans. The Ontario Teachers' Pension Plan 2009 Report used a discount rate in the financial valuation of 4.6 percent, which was equal to the yield of long-term Government of Canada Real Return Bonds, plus 0.5 percent, plus the assumed inflation rate. In the Netherlands, fair value accounting for defined benefit plans has replaced the traditional actuarial approach (Ponds and van Riel, 2007).
- 13 Brown and Wilcox (2009).
- 14 Novy-Marx and Rauh (2009a) employ a state-specific taxable municipal bond rate based on the zero coupon municipal bond curve. Their rationale is that states are equally likely to default on their pension obligations as on their other debt.
- 15 The 30-year Treasury constant maturity series was discontinued on February 18, 2002, and re-introduced on February 9, 2006.
- 16 A 5-percent rate is also consistent, for example, with a riskless real rate of 2.5 percent and an inflation rate of 2.5 percent.
- 17 In addition to the reasons discussed below, using a riskless rate may discourage the use of pension obligation bonds and reduce the incentive to invest in riskier assets to reduce the size of the liability.

18 CalPERS (2009).

19. It is possible that benefits could be constrained through other means. But a cursory search surfaced only one example: the Florida Retirement System. Despite being more than fully funded from 1998 through 2006, Florida succeeded in restraining benefit increases through statutory stabilization methods. Article X of the Florida constitution, passed in 1976, requires that any proposed benefit increase must be accompanied by actuarially sound funding provisions. The subsequent addition of Part VII of Chapter 112 of the Florida statutes stipulates that total contributions must cover both the normal cost and an amount sufficient to amortize the unfunded liability over no more than 40 years. What is more, the combination of an employee's pension and Social Security benefits cannot exceed 100 percent of final salary. As a result of this legislation, Florida has not increased benefits substantially since the late 1970s. See Peng (2009).

20 The Actuarial Standards Board's Actuarial Standard of Practice No. 4 provides guidance for measuring pension obligations and determining plans' costs.

21 Johnson (1997) found that the relative generosity of state and local government pensions is directly related to the ability to underfund the plans.

22 Actuaries use a number of actuarial cost methods to allocate the portion of future benefit payments to each year for funding purposes, but this exercise simply calculates the present value of the additional lifetime benefit accrued to the current workforce by one more year of service.

23 Increasing the amortization period raises its own set of issues. For example, payments made roughly 40 years or more in the future add little to the present value of the payment stream. Moreover, such a long amortization period might not be viewed as a credible funding strategy by bond-rating agencies and others.

24 Bader and Gold (2003).

25 If, in the extreme, pension funds had no aversion to risk, their surplus return would equal the entire difference between the returns on risky assets and Treasury securities. Adding the present value of this surplus return to the funded status of a pension fund would produce nearly the same result as calculating the present value of its liabilities using the expected return on its portfolio.

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APPENDIX

APPENDIX A: METHODOLOGY FOR CHANGING THE DISCOUNT RATE AND MOVING FROM PBO TO ABO

To convert the PBO liability reported in plans' annual reports to an ABO liability and to change the discount rate assumption, we set up a model that projects the level of currently accrued benefits that state and local employers will need to pay in the future. To do this, we calculate expected accrued benefits for both active workers and retirees. The accrued benefit is a function of a worker's salary and accrued service:

$$E(\text{accrued benefit}) = f(\text{service}, \text{salary})$$

Accrued service depends on age, and salary depends on either age alone or age and projected total service, depending on whether the liability being calculated is an ABO or a PBO. Using age-service-salary matrices provided in the 2009 annual reports and actuarial valuations of the 10 largest pension plans, we are able to determine both the average accrued service of active employees in different age brackets and their average current salaries. The ABO equals:

$$E(\text{accrued benefit}_{ABO}) = 2.5\% * \text{accrued service} * \text{current salary}$$

following the benefit formula used by most state and local pension plans. Converting this ABO to a PBO requires assumptions about future salary growth. Plans' annual reports provide projections of future wage growth for active employees of different ages as well as separation probabilities. The formula for expected termination salary thus becomes:

$$E(\text{termination salary}) = \frac{\text{current salary} * \text{wage growth}}{\text{years until retirement} * \text{probability of remaining a public employee until retirement}}$$

The PBO can be calculated as:

$$E(\text{benefit}_{PBO}) = 2.5\% * \text{accrued service} * \text{termination salary}$$

Each individual's expected benefit is multiplied by the number of active employees in each age bracket to get an aggregate yearly benefit that is paid by the employer from the year the employee retires until death.

Retired workers are treated slightly differently than actives. Based on the CRR Public Pension Database (PPD), we know the total level of benefits paid to retired employees in 2009 and the proportion of those benefits owed to retirees of different ages. We therefore assume that the aggregate yearly level of benefits received by each age group in 2009 is that group's aggregate expected yearly benefit.

The active and retiree benefits are further enhanced by a 3-percent Cost-Of-Living Adjustment (COLA) each year. Finally, we use the RP2000 mortality table used by most state and local plans to reduce the aggregate benefit paid by employers each year by the probability that all the retirees of each age are still alive in that year.

The result is a nominal stream of payments owed by state and local employers to current employees and retirees. The PBO stream is normalized so that, discounted at plans' assumed investment return rate of 8 percent, it equals the reported 2009 aggregate liability of the 126 plans in the CRR PPD. The ABO stream is similarly adjusted. With this model, we can change the discount rate of the liability by "re-inflating" the normalized stream of benefits by an 8 percent interest rate, and then re-discounting it using a different yield curve.

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EXHIBIT 2

WAC 415-02-320

Early retirement factors.

(1) **What are early retirement factors?** Early retirement factors (ERFs) are used by the department to reduce a monthly retirement benefit when that payment begins before the member has qualified for normal retirement based on age and service. This reduction offsets the cost to the plan of paying the monthly benefit for a longer time.

(2) **In what situations will the department use an ERF?**

(a) The department will use an ERF to reduce a monthly benefit in any of the following situations, subject to the law governing your plan, and subject to the exceptions in (b) of this subsection:

- (i) You choose to retire early.
- (ii) You retire due to a disability before you are eligible for normal retirement.
- (iii) You die before you are eligible for normal retirement, and your beneficiary is eligible for a monthly benefit.

(b) An ERF is not used in the following circumstances, although another method may be used to reduce benefits as required by the laws governing each plan:

- (i) You meet your plan's requirements for "alternate early retirement";
- (ii) You meet PSERS requirements for "early retirement";
- (iii) You retire for service or due to a disability, from PERS Plan 1 or TRS Plan 1;
- (iv) You are a member of LEOFF Plan 1;
- (v) You retire due to a duty-related disability from LEOFF Plan 2;
- (vi) You retire due to a disability or die before retirement from WSPRS Plan 1; or
- (vii) You retire due to a disability from WSPRS Plan 2.

(c) The following table shows the law governing plans that use an ERF:

| | Early Retirement | Disability Retirement | Death Prior to Retirement |
|---------------|------------------|-----------------------|---------------------------|
| LEOFF Plan 1: | N/A | N/A | N/A |
| LEOFF Plan 2: | RCW 41.26.430 | RCW 41.26.470 | RCW 41.26.510 |
| PERS Plan 1: | N/A | N/A | RCW 41.40.270 |
| PERS Plan 2: | RCW 41.40.630 | RCW 41.40.670 | RCW 41.40.700 |
| PERS Plan 3: | RCW 41.40.820 | RCW 41.40.825 | RCW 41.40.835 |
| PSERS: | N/A | RCW 41.37.230 | RCW 41.37.250 |
| SERS Plan 2: | RCW 41.35.420 | RCW 41.35.440 | RCW 41.35.460 |
| SERS Plan 3: | RCW 41.35.680 | RCW 41.35.690 | RCW 41.35.710 |
| TRS Plan 1: | N/A | N/A | RCW 41.32.520 |
| TRS Plan 2: | RCW 41.32.765 | RCW 41.32.790 | RCW 41.32.805 |
| TRS Plan 3: | RCW 41.32.875 | RCW 41.32.880 | RCW 41.32.895 |
| WSPRS Plan 1: | RCW 43.43.280 | N/A | N/A |
| WSPRS Plan 2: | RCW 43.43.280 | N/A | RCW 43.43.295 |

(3) How does the department determine the number of years on which to base the ERF? The calculation varies among plans:

(a) ERFs are based on the number of years between the age at which you retire, or die, and the age at which you would have qualified for normal retirement based on age and service.

Example - early retirement: Sandy, a PERS Plan 2 member, applies for retirement at age 56 years and one month with a total of 21.11 years of service. Her average final compensation (AFC) is \$3,500.00.

PERS Plan 2 provides for two percent (.02) of AFC per year of service. A PERS Plan 2 member must be age 65 to retire with an unreduced benefit (i.e., normal retirement), but is eligible to retire with an actuarially reduced benefit (i.e., early retirement) at age 55 with 20 years of service credit.

The difference between Sandy's age now (56) and the age at which she would have qualified for normal retirement (age 65) is 8 years and 11 months. The corresponding ERF is 0.3987. Therefore, the department will multiply Sandy's AFC of \$3,500 x .02 x 21.11 (service credit years) x 0.3987 (ERF). Sandy's monthly retirement benefit will be \$589.16.

(b) WSPRS Plan 2 only: The ERF used to calculate your survivor's monthly benefit if you die before retirement is based on the number of years between the age at which you die and age fifty-five (55) or when you could have attained twenty-five (25) years of service, whichever is less. See RCW 43.43.295.

Example - early retirement: The survivor benefit, in this example, will also have a reduction applied for 100% joint and survivor option, based on the difference between John's age and his survivor's age.

John, a WSPRS Plan 2 member dies prior to retirement. John is age 40 and has 15 years of service at the time of his death. John's Average Final Salary (AFS) is \$4,000. John's surviving spouse is also age 40.

Since John would have attained 25 years of service before he would have attained age 55, the ERF used to calculate his survivor's benefit will be based on the 10 years it would have taken him to reach 25 years of service. The corresponding ERF for 10 years early retirement is 0.403. The corresponding joint and survivor (J&S) factor that will also be applied to the benefit is 0.889.

Therefore, the department will multiply John's AFS of \$4,000 x .02 x 15 (service credit years) x 0.403 (ERF) x 0.889 (J&S). John's survivor will receive a monthly benefit of \$429.92.

(c) TRS Plan 1 only: The ERF used to calculate your survivor's monthly benefit if you die before retirement is based on the number of years between the age at which you die and the age at which you would have first become eligible to retire under RCW 41.32.480. See RCW 41.32.520.

Example - death before retirement: Robert, a 56 year-old TRS Plan 1 member, died April 1, 2006, with 23.17 years of service credit. His AFC is \$3,171.74.

TRS Plan 1 provides an unreduced benefit (i.e., normal retirement) at age 55 with 25 years of service credit.

Robert's wife, Karen, will receive an actuarially reduced benefit based on the date Robert would have first qualified for an unreduced benefit (i.e., normal retirement). If Robert had continued in service, he would have met eligibility requirements in one year and 10 months, when he earned 25 years of service credit. The ERF for one year and 10 months is 0.8410.

Karen's monthly benefit will be further reduced by the Option 2 survivor factor, which is based on the age difference between her and Robert. Karen is age 58, two years older than Robert. The Option 2 survivor factor for a beneficiary two years older is 0.918 (see WAC 415-02-380(12)).

The department will multiply 23.17 (Robert's service credit years) x .02 x \$3,171.74 (AFC) x 0.8410 (ERF) x 0.918 (the Option 2 factor). Karen's monthly benefit will be \$1,134.73.

(4) Table - This table contains the early retirement factors (ERFs) for members who retire from active service in PERS Plan 1, TRS Plan 1, and WSPRS Plan 2. The ERFs are effective September 1, 2010.

| Yrs Early | Month | Month | Month | Month | Month | Month | Month | Month | Month | Month | Month | Month |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| | | | | | | | | | | | | |

| | 0 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 |
|-----|--------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 0 | 1.0000 | .9924 | .9848 | .9772 | .9696 | .9620 | .9544 | .9468 | .9392 | .9316 | .9240 | .9164 |
| 1 | .9090 | .9022 | .8954 | .8886 | .8818 | .8750 | .8662 | .8614 | .8546 | .8478 | .8410 | .8342 |
| 2 | .8270 | .8209 | .8148 | .8087 | .8026 | .7965 | .7904 | .7843 | .7782 | .7721 | .7660 | .7599 |
| 3 | .7540 | .7485 | .7430 | .7375 | .7320 | .7265 | .7210 | .7155 | .7100 | .7045 | .6990 | .6935 |
| 4 | .6880 | .6830 | .6780 | .6730 | .6680 | .6630 | .6580 | .6530 | .6480 | .6430 | .6380 | .6330 |
| 5 | .6280 | .6235 | .6190 | .6145 | .6100 | .6055 | .6010 | .5965 | .5920 | .5875 | .5830 | .5785 |
| 6 | .5740 | .5698 | .5656 | .5614 | .5572 | .5530 | .5488 | .5446 | .5404 | .5362 | .5320 | .5278 |
| 7 | .5240 | .5203 | .5166 | .5129 | .5092 | .5055 | .5018 | .4981 | .4944 | .4907 | .4870 | .4833 |
| 8 | .4800 | .4767 | .4734 | .4701 | .4668 | .4635 | .4602 | .4569 | .4538 | .4503 | .4470 | .4437 |
| 9 | .4400 | .4369 | .4338 | .4307 | .4276 | .4245 | .4214 | .4183 | .4152 | .4121 | .4090 | .4059 |
| 10 | .4030 | .4002 | .3974 | .3946 | .3918 | .3890 | .3862 | .3834 | .3806 | .3778 | .3750 | .3722 |
| 11 | .3690 | .3665 | .3640 | .3615 | .3590 | .3565 | .3540 | .3515 | .3490 | .3465 | .3440 | .3415 |
| 12 | .3390 | .3367 | .3344 | .3321 | .3298 | .3275 | .3252 | .3229 | .3206 | .3183 | .3160 | .3137 |
| 13 | .3110 | .3088 | .3066 | .3044 | .3022 | .3000 | .2978 | .2956 | .2934 | .2912 | .2890 | .2868 |
| 14 | .2850 | .2831 | .2812 | .2793 | .2774 | .2755 | .2736 | .2717 | .2698 | .2679 | .2660 | .2641 |
| 15 | .2620 | .2603 | .2586 | .2569 | .2552 | .2535 | .2518 | .2501 | .2484 | .2467 | .2450 | .2433 |
| 16 | .2410 | .2393 | .2376 | .2359 | .2342 | .2325 | .2308 | .2291 | .2274 | .2257 | .2240 | .2223 |
| 17 | .2210 | .2195 | .2180 | .2165 | .2150 | .2135 | .2120 | .2105 | .2090 | .2075 | .2060 | .2045 |
| 18 | .2030 | .2017 | .2004 | .1991 | .1978 | .1965 | .1952 | .1939 | .1926 | .1913 | .1900 | .1887 |
| 19 | .1870 | .1857 | .1844 | .1831 | .1818 | .1805 | .1792 | .1779 | .1766 | .1753 | .1740 | .1727 |
| 20 | .1710 | .1699 | .1688 | .1677 | .1666 | .1655 | .1644 | .1633 | .1622 | .1611 | .1600 | .1589 |
| 21 | .1580 | .1569 | .1558 | .1547 | .1536 | .1525 | .1514 | .1503 | .1492 | .1481 | .1470 | .1459 |
| 22 | .1450 | .1440 | .1430 | .1420 | .1410 | .1400 | .1390 | .1380 | .1370 | .1360 | .1350 | .1340 |
| 23 | .1330 | .1322 | .1314 | .1306 | .1298 | .1290 | .1282 | .1274 | .1266 | .1258 | .1250 | .1242 |
| 24 | .1230 | .1222 | .1214 | .1206 | .1198 | .1190 | .1182 | .1174 | .1166 | .1158 | .1150 | .1142 |
| 25 | .1130 | .1123 | .1116 | .1109 | .1102 | .1095 | .1088 | .1081 | .1074 | .1067 | .1060 | .1053 |
| 26 | .1040 | .1037 | .1034 | .1031 | .1028 | .1025 | .1022 | .1019 | .1016 | .1013 | .1010 | .1007 |
| 27 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 28 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 29 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 30+ | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |

(5) Table - The following early retirement factors (ERFs) for PERS Plans 2 and 3, SERS Plans 2 and 3, and TRS Plans 2 and 3 are effective September 1, 2010.

| Yrs Early | Month 0 | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| 0 | 1.0000 | .9913 | .9826 | .9739 | .9652 | .9565 | .9478 | .9391 | .9304 | .9217 | .9130 | .9043 |
| 1 | .8960 | .8884 | .8808 | .8732 | .8656 | .8580 | .8504 | .8428 | .8352 | .8276 | .8200 | .8124 |
| 2 | .8050 | .7983 | .7916 | .7849 | .7782 | .7715 | .7648 | .7581 | .7514 | .7447 | .7380 | .7313 |
| 3 | .7240 | .7180 | .7120 | .7060 | .7000 | .6940 | .6880 | .6820 | .6760 | .6700 | .6640 | .6580 |
| 4 | .6520 | .6467 | .6414 | .6361 | .6308 | .6255 | .6202 | .6149 | .6096 | .6043 | .5990 | .5937 |
| 5 | .5880 | .5833 | .5786 | .5739 | .5692 | .5645 | .5598 | .5551 | .5504 | .5457 | .5410 | .5363 |
| 6 | .5310 | .5268 | .5226 | .5184 | .5142 | .5100 | .5058 | .5016 | .4974 | .4932 | .4890 | .4848 |
| 7 | .4810 | .4772 | .4734 | .4696 | .4658 | .4620 | .4582 | .4544 | .4506 | .4468 | .4430 | .4392 |
| 8 | .4350 | .4317 | .4284 | .4251 | .4218 | .4185 | .4152 | .4119 | .4086 | .4053 | .4020 | .3987 |
| 9 | .3950 | .3919 | .3888 | .3857 | .3826 | .3795 | .3764 | .3733 | .3702 | .3671 | .3640 | .3609 |
| 10 | .3580 | .3553 | .3526 | .3499 | .3472 | .3445 | .3418 | .3391 | .3364 | .3337 | .3310 | .3283 |
| 11 | .3260 | .3235 | .3210 | .3185 | .3160 | .3135 | .3110 | .3085 | .3060 | .3035 | .3010 | .2985 |
| 12 | .2960 | .2938 | .2916 | .2894 | .2872 | .2850 | .2828 | .2806 | .2784 | .2762 | .2740 | .2718 |
| 13 | .2690 | .2670 | .2650 | .2630 | .2610 | .2590 | .2570 | .2550 | .2530 | .2510 | .2490 | .2470 |
| 14 | .2450 | .2432 | .2414 | .2396 | .2378 | .2360 | .2342 | .2324 | .2306 | .2288 | .2270 | .2252 |
| 15 | .2230 | .2214 | .2198 | .2182 | .2166 | .2150 | .2134 | .2118 | .2102 | .2086 | .2070 | .2054 |
| 16 | .2040 | .2025 | .2010 | .1995 | .1980 | .1965 | .1950 | .1935 | .1920 | .1905 | .1890 | .1875 |
| 17 | .1860 | .1848 | .1832 | .1818 | .1804 | .1790 | .1778 | .1762 | .1748 | .1734 | .1720 | .1708 |
| 18 | .1890 | .1678 | .1666 | .1654 | .1642 | .1630 | .1618 | .1606 | .1594 | .1582 | .1570 | .1558 |
| 19 | .1550 | .1538 | .1526 | .1514 | .1502 | .1490 | .1478 | .1466 | .1454 | .1442 | .1430 | .1418 |
| 20 | .1410 | .1400 | .1390 | .1380 | .1370 | .1360 | .1350 | .1340 | .1330 | .1320 | .1310 | .1300 |
| 21 | .1290 | .1281 | .1272 | .1263 | .1254 | .1245 | .1236 | .1227 | .1218 | .1209 | .1200 | .1191 |
| 22 | .1180 | .1172 | .1164 | .1156 | .1148 | .1140 | .1132 | .1124 | .1116 | .1108 | .1100 | .1092 |
| 23 | .1080 | .1074 | .1068 | .1062 | .1056 | .1050 | .1044 | .1038 | .1032 | .1026 | .1020 | .1014 |
| 24 | .1010 | .1009 | .1008 | .1007 | .1006 | .1005 | .1004 | .1003 | .1002 | .1001 | .1000 | .1000 |
| 25 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 26 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 27 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 28 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 29 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |

| | | | | | | | | | | | | |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 30+ | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|

(6) **Table** - The following table contains early retirement factors (ERFs) for members who do not retire from active service in PERS Plan 1, PSERS Plan 2, and WSPRS Plans 1 and 2. The ERFs are effective September 1, 2010.

| Yrs Early | Month 0 | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 |
|------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|
| 0 | 1.0000 | .9918 | .9836 | .9754 | .9672 | .9590 | .9508 | .9426 | .9344 | .9262 | .9180 | .9098 |
| 1 | .9010 | .6938 | .8866 | .8794 | .8722 | .8650 | .8576 | .8506 | .8434 | .8362 | .8290 | .8218 |
| 2 | .8140 | .8075 | .8010 | .7945 | .7880 | .7815 | .7750 | .7685 | .7620 | .7555 | .7490 | .7425 |
| 3 | .7360 | .7302 | .7244 | .7186 | .7128 | .7070 | .7012 | .6954 | .6896 | .6838 | .6780 | .6722 |
| 4 | .6660 | .6608 | .6556 | .6504 | .6452 | .6400 | .6348 | .6296 | .6244 | .6192 | .6140 | .6088 |
| 5 | .6040 | .5994 | .5948 | .5902 | .5856 | .5810 | .5764 | .5718 | .5672 | .5626 | .5580 | .5534 |
| 6 | .5490 | .5448 | .5406 | .5364 | .5322 | .5280 | .5238 | .5196 | .5154 | .5112 | .5070 | .5028 |
| 7 | .4990 | .4953 | .4916 | .4679 | .4842 | .4805 | .4768 | .4731 | .4694 | .4657 | .4620 | .4583 |
| 8 | .4540 | .4506 | .4472 | .4438 | .4404 | .4370 | .4336 | .4302 | .4268 | .4234 | .4200 | .4166 |
| 9 | .4130 | .4100 | .4070 | .4040 | .4010 | .3980 | .3950 | .3920 | .3890 | .3860 | .3630 | .3800 |
| 10 | .3770 | .3743 | .3716 | .3689 | .3662 | .3635 | .3608 | .3581 | .3554 | .3527 | .3500 | .3473 |
| 11 | .3440 | .3415 | .3390 | .3365 | .3340 | .3315 | .3290 | .3265 | .3240 | .3215 | .3190 | .3165 |
| 12 | .3140 | .3118 | .3096 | .3074 | .3052 | .3030 | .3008 | .2986 | .2964 | .2942 | .2920 | .2898 |
| 13 | .2870 | .2849 | .2828 | .2807 | .2786 | .2765 | .2744 | .2723 | .2702 | .2681 | .2660 | .2639 |
| 14 | .2620 | .2602 | .2584 | .2566 | .2548 | .2530 | .2512 | .2494 | .2476 | .2458 | .2440 | .2422 |
| 15 | .2400 | .2383 | .2366 | .2349 | .2332 | .2315 | .2298 | .2281 | .2264 | .2247 | .2230 | .2213 |
| 16 | .2190 | .2175 | .2160 | .2145 | .2130 | .2115 | .2100 | .2085 | .2070 | .2055 | .2040 | .2025 |
| 17 | .2010 | .1996 | .1982 | .1968 | .1954 | .1940 | .1926 | .1912 | .1898 | .1884 | .1870 | .1856 |
| 18 | .1840 | .1828 | .1816 | .1804 | .1792 | .1780 | .1768 | .1756 | .1744 | .1732 | .1720 | .1708 |
| 19 | .1690 | .1678 | .1666 | .1654 | .1642 | .1630 | .1618 | .1606 | .1594 | .1582 | .1570 | .1558 |
| 20 | .1550 | .1539 | .1528 | .1517 | .1506 | .1495 | .1484 | .1473 | .1462 | .1451 | .1440 | .1429 |
| 21 | .1420 | .1410 | .1400 | .1390 | .1380 | .1370 | .1360 | .1350 | .1340 | .1330 | .1320 | .1310 |
| 22 | .1300 | .1291 | .1282 | .1273 | .1264 | .1255 | .1246 | .1237 | .1228 | .1219 | .1210 | .1201 |
| 23 | .1190 | .1183 | .1176 | .1169 | .1162 | .1155 | .1148 | .1141 | .1134 | .1127 | .1120 | .1113 |
| 24 | .1100 | .1093 | .1086 | .1079 | .1072 | .1065 | .1058 | .1051 | .1044 | .1037 | .1030 | .1023 |
| 25 | .1020 | .1018 | .1016 | .1014 | .1012 | .1010 | .1008 | .1006 | .1004 | .1002 | .1000 | .1000 |
| 26 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 27 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |

| | | | | | | | | | | | | |
|-----|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 28 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 29 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 30+ | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |

(7) Table - This table contains the early retirement factors (ERFs) for members who retire from active service in LEOFF Plan 2. The ERFs are effective January 1, 2010.

| Yrs Early | Month 0 | Month 1 | Month 2 | Month 3 | Month 4 | Month 5 | Month 6 | Month 7 | Month 8 | Month 9 | Month 10 | Month 11 |
|--------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|-------------|-------------|
| 0 | 1.0000 | .9925 | .9850 | .9775 | .9700 | .9625 | .9550 | .9475 | .9400 | .9325 | .9250 | .9175 |
| 1 | .9100 | .9033 | .8966 | .8899 | .8832 | .8765 | .8698 | .8631 | .8564 | .8497 | .8430 | .8363 |
| 2 | .8300 | .8239 | .8178 | .8117 | .8056 | .7995 | .7934 | .7873 | .7812 | .7751 | .7690 | .7629 |
| 3 | .7570 | .7515 | .7460 | .7405 | .7350 | .7295 | .7240 | .7185 | .7130 | .7075 | .7020 | .6965 |
| 4 | .6910 | .6860 | .6810 | .6760 | .6710 | .6660 | .6610 | .6560 | .6510 | .6460 | .6410 | .6360 |
| 5 | .6310 | .6265 | .6220 | .6175 | .6130 | .6085 | .6040 | .5995 | .5950 | .5905 | .5860 | .5815 |
| 6 | .5770 | .5728 | .5686 | .5644 | .5602 | .5560 | .5518 | .5476 | .5434 | .5392 | .5350 | .5308 |
| 7 | .5270 | .5233 | .5196 | .5159 | .5122 | .5085 | .5048 | .5011 | .4974 | .4937 | .4900 | .4863 |
| 8 | .4830 | .4796 | .4762 | .4728 | .4694 | .4660 | .4626 | .4592 | .4558 | .4524 | .4490 | .4456 |
| 9 | .4420 | .4389 | .4358 | .4327 | .4296 | .4265 | .4234 | .4203 | .4172 | .4141 | .4110 | .4079 |
| 10 | .4050 | .4022 | .3994 | .3966 | .3938 | .3910 | .3882 | .3854 | .3826 | .3798 | .3770 | .3742 |
| 11 | .3710 | .3685 | .3660 | .3635 | .3610 | .3585 | .3560 | .3535 | .3510 | .3485 | .3460 | .3435 |
| 12 | .3410 | .3387 | .3364 | .3341 | .3318 | .3295 | .3272 | .3249 | .3226 | .3203 | .3180 | .3157 |
| 13 | .3130 | .3108 | .3086 | .3064 | .3042 | .3020 | .2998 | .2976 | .2954 | .2932 | .2910 | .2888 |
| 14 | .2870 | .2851 | .2832 | .2813 | .2794 | .2775 | .2756 | .2737 | .2718 | .2699 | .2680 | .2661 |
| 15 | .2640 | .2622 | .2604 | .2586 | .2568 | .2550 | .2532 | .2514 | .2496 | .2478 | .2460 | .2442 |
| 16 | .2420 | .2404 | .2388 | .2372 | .2356 | .2340 | .2324 | .2308 | .2292 | .2276 | .2260 | .2244 |
| 17 | .2230 | .2215 | .2200 | .2185 | .2170 | .2155 | .2140 | .2125 | .2110 | .2095 | .2080 | .2065 |
| 18 | .2050 | .2036 | .2022 | .2008 | .1994 | .1980 | .1966 | .1952 | .1938 | .1924 | .1910 | .1896 |
| 19 | .1880 | .1868 | .1856 | .1844 | .1832 | .1820 | .1808 | .1796 | .1784 | .1772 | .1760 | .1748 |
| 20 | .1730 | .1718 | .1706 | .1694 | .1682 | .1670 | .1658 | .1646 | .1634 | .1622 | .1610 | .1598 |
| 21 | .1590 | .1580 | .1570 | .1560 | .1550 | .1540 | .1530 | .1520 | .1510 | .1500 | .1490 | .1480 |
| 22 | .1470 | .1460 | .1450 | .1440 | .1430 | .1420 | .1410 | .1400 | .1390 | .1380 | .1370 | .1360 |
| 23 | .1350 | .1342 | .1334 | .1326 | .1316 | .1310 | .1302 | .1294 | .1286 | .1278 | .1270 | .1262 |
| 24 | .1250 | .1242 | .1234 | .1226 | .1218 | .1210 | .1202 | .1194 | .1186 | .1178 | .1170 | .1162 |
| 25 | .1150 | .1143 | .1136 | .1129 | .1122 | .1115 | .1108 | .1101 | .1094 | .1087 | .1080 | .1073 |

| | | | | | | | | | | | | |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 26 | .1060 | .1055 | .1050 | .1045 | .1040 | .1035 | .1030 | .1025 | .1020 | .1015 | .1010 | .1005 |
| 27 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 28 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 29 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |
| 30+ | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 | .1000 |

[Statutory Authority: RCW 41.50.050(5), 10-16-086, § 415-02-320, filed 7/30/10, effective 9/1/10. Statutory Authority: RCW 41.50.050(5), chapter 41.45 RCW, 06-18-009, § 415-02-320, filed 8/24/06, effective 9/24/06; 02-18-048, § 415-02-320, filed 8/28/02, effective 9/1/02.]

EXHIBIT 3



insider

Lump Sum and Annuity Comparisons: More Than Meets the Eye

In all the recent hoopla about pensions and disclosure, one concern has focused on whether employers are doing a good enough job of communicating the comparative value of different distribution options. It has even been suggested that some employers deliberately withhold this information, hoping that employees will elect "unsubsidized" lump sum distributions instead of "subsidized" annuity options. This is very unlikely, for at least two reasons. First, it overlooks the reason plan sponsors provide subsidies at all—which is to make subsidized options more attractive to participants, not less. Second, it misstates the relative costs of providing various annuity and lump sum distribution options.

Determining Value and Comparing Costs

A number of key variables affect the cost of annuities versus lump sums. The two most important considerations are the relationship between the federally mandated interest rate used to calculate lump sums and the expected rate of return on plan assets, and the degree of subsidy built into the different distribution options. When a participant receives a lump sum distribution, the assets funding his benefit are removed from the plan immediately. But when a participant receives an annuity, most of the assets funding the benefit remain in the plan, producing earnings and so reducing the benefit's cost. This difference alone can make annuities a more cost-effective distribution option than a lump sum, even when the annuity is subsidized.

Today, legally mandated interest rates used to calculate lump sum benefits are low enough to effectively subsidize all lump sum benefits, relative to their actual cost to the plan. To figure out the current lump-sum value, the formula starts with a target benefit and date and an interest rate. Using that interest rate, the formula then calculates the starting lump sum required to attain the target benefit by the target date. The lower the interest rate, the higher the starting lump sum amount needs to be, so that it can grow into the target benefit by the target date. For example, assume that a specific plan calls for a lump sum to be paid to a 55-year-old employee such that her benefit will be worth \$100,000 when she reaches age 65. If the interest rate is 5 percent, the plan must pay the employee a lump sum of roughly \$60,000. In other words, \$60,000 growing at a rate of 5 percent per year would equal roughly \$100,000 in 10 years. If the plan assumes an interest rate of 10 percent, the plan would only have to pay the employee a lump sum of roughly \$40,000.

The statutory interest rate for determining lump sum benefits has ranged from 5.01 to 7.09 percent over the past four years. It has recently been hovering around 6 percent, compared to the average plan earnings assumption of over 9 percent (as reported in Watson Wyatt's Accounting for Pensions and Other Postretirement Benefits survey). Requiring the use of such comparatively low interest rates to calculate lump sum distributions provides a windfall to participants, actually encouraging participants to choose lump sums rather than annuities.

The degree of plan subsidy built into a benefit option also significantly affects its cost. A plan can provide different degrees of actuarial reduction for early retirement, ranging from full actuarial reduction to no reduction at all. Many plans provide some amount of subsidy for early retirement, while others provide no subsidy at all. Obviously, the richer the subsidy in the plan, the more valuable the distribution option is to the participant, and the more it costs the plan to provide the benefit.

Other factors that affect the relative cost of lump sum and annuity options include:

- Employees' ages at retirement and the numbers and ages of employees choosing lump sums or annuities. While these factors won't affect the relative cost of any distribution option for an individual participant, they may affect the overall cost of the options provided to all participants.
- The demographics of participants.
- Participants' personal health and their probable longevity.
- Administrative expenses involved in initiating, paying out and stopping annuity distributions.
- Paying PBGC premiums on behalf of annuity recipients.
- Anticipated changes in future mortality, and the use of different mortality tables for determining lump sum benefits and plan funding.

An Illustration

Assume that a traditional defined benefit plan subsidizes its early retirement annuity benefit by using 4 percent reduction

factors for each year of service before age 65, down to age 55. That means that a participant who retires at age 55 would receive 60 percent of her normal retirement benefit. This is a potentially significant subsidy, since the actuarial equivalent of a normal retirement benefit, using common actuarial assumptions, is usually between 37 and 46 percent of the age-65 benefit.

However, even if the lump sum is based on the unsubsidized value of the deferred normal retirement benefit—not the subsidized early retirement benefit—the annuity benefit may be more cost-effective for the plan. For a 55-year-old participant whose annual normal retirement benefit is \$20,000, the statutorily required lump sum benefit is \$119,000. Her subsidized early retirement annuity benefit is \$12,000 per year, which costs the plan \$116,000. This cost reflects various administrative costs as well as anticipated earnings on plan assets.

Despite its significant subsidy, the early retirement annuity benefit costs the plan less than the lump sum, although it may still be worth more to the employee. The relative costs of each distribution option will vary with the participant's age at retirement, but the annuity benefit will cost the plan less at every age. Comparisons of the relative cost and value of the different benefit options to the plan and participant are complicated by the parties' different tax status, with the plan's investment earnings growing tax-free, as opposed to the after-tax earnings of the participant's investments. If the participant lives his anticipated life expectancy or longer, the subsidized early retirement annuity will probably be more valuable than the lump sum, depending on the participant's spending pattern and investment performance. Though difficult to put a quantitative value on, the annuity benefit provides a steady retirement income stream, effectively disciplining the participant's retirement consumption. The lump sum provides maximum flexibility for the participant's spending and investing, but carries the risk that the participant may outlive the lump sum.

Even when an annuity benefit reflects an extremely valuable subsidy, it often costs the plan less overall. For example, if the statutory interest rate is 6 percent, the lump sum value of the deferred normal retirement benefit is about the same as the cost of a fully subsidized (i.e., no reduction) early retirement benefit payable at age 62 to a male participant.

Legal Considerations

In addition to IRS regulations requiring that participants be provided information on the relative values of the different distribution options available under the plan, it can be a breach of ERISA's fiduciary duties if employee communications concerning plan rights are misleading or inaccurate. However, there is no requirement that plans provide individualized advice to participants, such as by indicating the relative actuarial value of different distribution options. Indeed, indicating the relative actuarial value of different distribution options raises potential liability implications for the plan and sponsor, as noted in a 1997 court ruling:

It would be inappropriate for [the plan sponsor] to advise participants as to the "value" of any particular option when that valuation would depend on the precise circumstances of each case. The "value" of an annuity over a lump sum differs according to the personal circumstances of each retiree. ... If [the plan sponsor] were to advise [a participant that an] early retirement subsidy was more "valuable," problems of preference would arise.

Conclusion

An early retirement subsidy is only one of many factors that affect the relative costs of lump sum versus annuity benefits. The idea that employers are encouraging participants to opt for lump sums in order to save themselves the cost of subsidizing annuities simply doesn't make sense. Employers provide subsidies to encourage employees to choose annuities, which often have the win-win effect of lower costs for employers and larger benefits for employees.

It is also important to consider both the value and the cost sides of the issue. Just because distribution options have equal value to the participant doesn't mean they have an equal cost to the plan. Similarly, the fact that a subsidized annuity may provide greater value to the participant doesn't necessarily mean it costs the plan more.

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EXHIBIT 4



**Federated City Employees'
Retirement System**

**June 30, 2010
Actuarial Valuation**

Produced by Cheiron

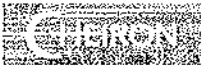
December 2010



Classic Values, Innovative Advice

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Classic Values, Innovative Advice

LETTER OF TRANSMITTAL

December 3, 2010

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

At your request, we performed the June 30, 2010 actuarial valuation of the Federated City Employees' Retirement System of the City of San Jose ("System"). The valuation results with respect to the System are contained in this report. The prior valuation was performed by Gabriel, Roeder, Smith and Company.

The table below presents the key results of the 2010 valuation.

| Table I-1 | | |
|---|------------------|------------------|
| Summary of Key Valuation Results | | |
| Valuation Date | 6/30/2010 | 6/30/2009 |
| Actuarial Liability (AL) | \$ 2,510,358 | \$ 2,486,155 |
| Actuarial Value of Assets (AVA) | 1,729,414 | 1,756,588 |
| Unfunded Actuarial Liability (UAL) | \$ 780,944 | \$ 729,567 |
| Funding Ratio - AVA | 69% | 71% |
| Market Value of Assets (MVA)* | \$ 1,512,802 | \$ 1,356,638 |
| Funding Ratio - MVA | 60% | 55% |
| Fiscal Year Ending | 6/30/2012 | 6/30/2011 |
| Member Contribution Rate | 4.68% | 4.88% ** |
| City Contribution Rate | | |
| Normal Cost Rate | 12.76% | 13.28% ** |
| UAL Rate | 15.58% | 12.47% ** |
| Total City Rate | 28.34% | 25.75% ** |
| Total Contribution Rate | 33.02% | 30.63% ** |
| Total Contribution Amount | | |
| -if paid at the beginning of the year | \$ 86,888 | \$ 84,787 ** |
| -if paid at the end of the year | \$ 93,795 | \$ 91,359 ** |

Amounts in thousands

* Includes SRBR of \$28,331 and \$19,786 as of June 30, 2010 and 2009 respectively

** Without phase-in of contribution rates



At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. For example, based on this valuation report, the Annual Required Contribution for the fiscal year ending June 30, 2012 is the greater of \$93,795,312 (if paid 6/30/2012) and 28.34% of actual payroll for the period from July 1, 2011 through June 30, 2012.

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL has increased by \$51.4 million. The primary cause of this increase is the investment experience during the 12 months ended June 30, 2010.
- *Funding Ratio:* The ratio of the actuarial value of assets to actuarial liabilities declined since the last valuation from 71% to 69%. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to actuarial liabilities increased from 55% to 60%.
- *Member Contribution Rate:* The member contribution rate is a proportion of the normal cost rate. In the prior valuation, this rate was calculated using a discount rate of 7.75%, and the increase was phased-in over a five-year period. The member contribution rate was 4.88%, while the phased-in member contribution rate was 4.54%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the member contribution rate increases from 4.54% to 4.68%. Under GRS' phase-in method, the rate was anticipated to increase from 4.54% to 4.65%.
- *City Contribution Rate:* Like the member contribution rate, the prior valuation report calculated a city contribution rate using a discount rate of 7.75%, but the increase in contribution rate was phased-in over a five-year period. So, while the valuation calculated a city contribution rate of 25.75%, the phased-in city contribution rate was 23.18%. In this valuation, the Board's intention of phasing in the discount rate is reflected by using a discount rate of 7.95%. Consequently, the city contribution rate increases from 23.18% to 28.34%. Under GRS' phase-in method, the rate was anticipated to increase from 23.18% to 23.96%. The additional increase to 28.34% is primarily attributable to the investment experience. Because assets are smoothed and the full investment losses from the last fiscal year have not been recognized yet, the contribution rate is expected to increase for the next three years assuming investment returns are 7.95% per year and all other actuarial assumptions are met.

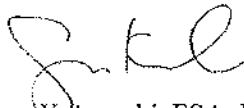
More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2010 valuation results can be found in our report which follows.

Board of Administration
December 3, 2010
Page iii

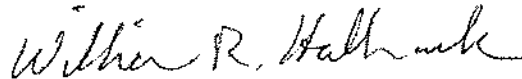
We certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board, and that as Members of the American Academy of Actuaries, we meet the Qualification Standards to render the opinion contained in this report. In preparing our report, we relied without audit, on information supplied by the Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information.

Finally, it's important to note that this valuation, which was prepared using census data and financial information as of June 30, 2010, does not reflect any subsequent changes in the membership profile and the investment markets.

Sincerely,
Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA
Consulting Actuary



William R. Halhnark, ASA, FCA, EA, MAAA
Consulting Actuary

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the Federated City Employees' Retirement System
- Past and expected trends in the financial condition of the System
- The Employer's contribution rate for the Fiscal Year Ending June 30, 2011, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section, we present a summary of the principal valuation results. This includes the basis upon which the June 30, 2010 valuation was completed and an examination of the current financial condition of the System. In addition, we present a review of the key historical trends followed by the projected financial outlook for the System.

A. Valuation Basis

The System's funding policy sets city contributions equal to the sum of:

- A portion (8/11th) of the Service Normal Rate (Regular Current Service Rate).
- The Reciprocity Rate which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans.
- The Deficiency Rate which is the amortization of the funding deficiency.
- The Golden Handshake Rate which is the cost for funding the additional benefits granted in the past to certain retiring employees.

Member contributions equal 3/11th of the Service Normal Rate.

In the prior valuation, the discount rate was changed from 8.25% to 7.75%, but the impact of the change on contributions was phased-in over a five-year period. We understand that the Board had instead intended that the discount rate be phased-in over a five-year period. This year, the Board adopted a faster phase-in of the discount rate, 7.95% in 2010 and 7.75% in 2011. As a result, this valuation report shows a change in the discount rate from 7.75% to 7.95%, but the contribution rates calculated in the report apply to the next fiscal year and are not phased in. In addition, the changes in the wage inflation assumptions are similarly phased-in. The wage inflation assumption is 3.90% for the 2010 valuation and is scheduled to be 3.83% for the 2011 valuation (as it was for the 2009 valuation).

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

B. Current Financial Condition

On the following pages, we summarize the key results of the June 30, 2010 valuation and how they compare to the results from the June 30, 2009 valuation.

1. Membership:

As shown in Table I-2 below, total membership in Federated remained relatively level from 2009 to 2010. Active membership decreased 6.4%, terminated vested membership increased 1.8% and retiree membership increased 6.2%. Total payroll decreased by 6.9%, and the average pay per active member decreased by 0.5%.

| Table I-2 | | | |
|-------------------------------|----------------------|----------------------|-----------------|
| Total Membership | | | |
| Item | June 30, 2010 | June 30, 2009 | % Change |
| Active Counts | 3,818 | 4,079 | -6.4% |
| Terminated Vesteds | 732 | 719 | 1.8% |
| Retirees | 2,472 | 2,308 | 7.1% |
| Beneficiaries | 428 | 412 | 3.9% |
| Disabled | 211 | 210 | 0.5% |
| Total City Members | 7,661 | 7,728 | -0.9% |
| Active Member Payroll | \$ 300,811,165 | \$ 323,020,387 | -6.9% |
| Average Pay per Active Member | 78,788 | 79,191 | -0.5% |

2. Assets and Liabilities:

Table I-3 on the following page presents a comparison between the June 30, 2010 and June 30, 2009 assets, liabilities, UAL, and funding ratios.

The key results shown in Table I-3 indicate that the total actuarial liability increased 1.0% and the market value of assets increased by 11.5%. The System employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) decreased by 1.5%. Finally, the overall funding (actuarial value of assets less actuarial liabilities) deficit increased from \$729.6 million to \$780.9 million, resulting in a decrease in the funding ratio from 70.7% to 68.9%. Based on the market value of assets, the funding ratio increased from 54.6% to 60.3%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

| Table I-3 Assets & Liabilities | | | |
|---|----------------------|----------------------|-----------------|
| Item (EAN) | June 30, 2010 | June 30, 2009 | % Change |
| Actives | \$ 1,005,659 | \$ 1,093,041 | -8.0% |
| Terminated Vesteds | 85,904 | 92,348 | -7.0% |
| Retirees | 1,271,310 | 1,159,499 | 9.6% |
| Beneficiaries | 81,931 | 77,423 | 5.8% |
| Disabled | 65,554 | 63,844 | 2.7% |
| Total Actuarial Liability | 2,510,358 | 2,486,155 | 1.0% |
| Market Value Assets | \$ 1,512,802 | \$ 1,356,638 | 11.5% |
| Actuarial Value Assets | \$ 1,729,414 | \$ 1,756,588 | -1.5% |
| Unfunded Actuarial Liability | \$ 780,944 | \$ 729,567 | 7.0% |
| Funding Ratio - Market Value | 60.3% | 54.6% | 5.7% |
| Funding Ratio - Actuarial Value | 68.9% | 70.7% | -1.8% |

Amounts in thousands

3. Contributions:

Table I-4 shows sources for the change in the net employer contribution rate from the rate (prior to phase-in) that was calculated in the prior report. The contribution rate increase is primarily attributable to the additional amount recognized in the actuarial value of assets due to the 2008-09 investment experience. The phase-in and 1-year lag of contribution rates also causes an increase under the assumptions and methods used in the prior valuation. The reduction in rates due to the assumption changes is also a reflection of changing from phasing in the contribution rates in the last valuation report to phasing in the change in discount rate in this valuation report.

| Table I-4 Contribution Rate Reconciliation | | | | | |
|---|---------------|---------------|------------|--------------|--------------|
| Item | Member | City | | | Total |
| | | Normal | UAL | Total | |
| 1 FY 2011 Contribution Rate | 4.88% | 13.28% | 12.47% | 25.75% | 30.63% |
| 2 Change due to investment loss | 0.00% | 0.00% | 3.03% | 3.03% | 3.03% |
| 3 Change due to actual vs. expected contributions* | 0.00% | 0.00% | 0.81% | 0.81% | 0.81% |
| 4 Change due to demographic experience | -0.02% | -0.04% | 0.49% | 0.45% | 0.43% |
| 5 Change due to assumption change | -0.18% | -0.48% | -1.22% | -1.70% | -1.88% |
| 6 FY 2012 Contribution Rate | 4.68% | 12.76% | 15.58% | 28.34% | 33.02% |

* The change due to contributions is composed of 0.73% due to the one-year lag between the valuation date and effective date of contribution rates plus 0.08% due to the difference between actual and expected payroll

In Section IV of this report, we provide more detail on the development of this contribution rate.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

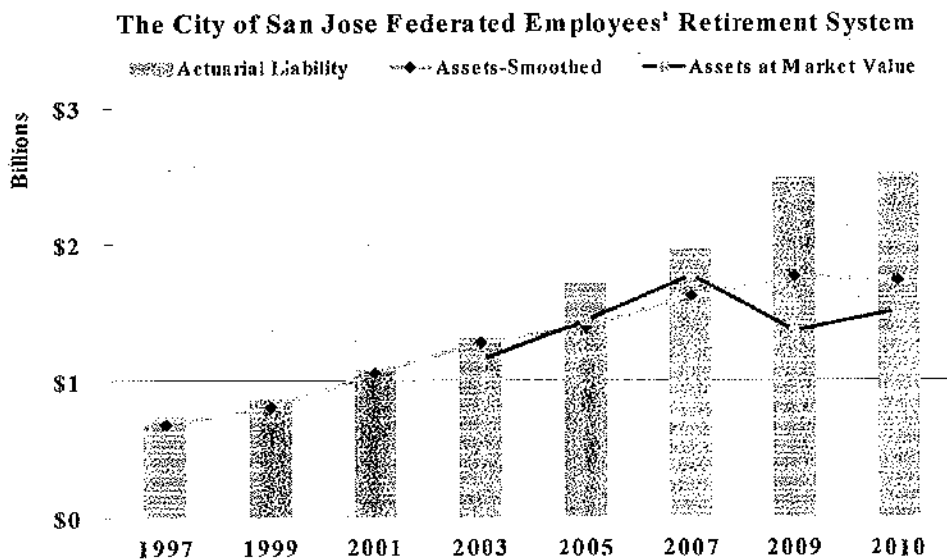
SECTION I
BOARD SUMMARY

C. Historical Trends

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the System's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of the funding ratios since 1997.

Federated Assets and Liabilities 1997-2010



** Market Value of Assets prior to 2003 were not reported separately for the Retirement Benefits*

| | 1997 | 1999 | 2001 | 2003 | 2005 | 2007 | 2009 | 2010 |
|----------------------|---------|---------|---------|---------|----------|----------|----------|----------|
| Funded Ratio | 92.3% | 93.3% | 98.9% | 97.6% | 80.9% | 82.8% | 70.7% | 68.9% |
| UAL/(Surplus) | \$ 56.8 | \$ 57.4 | \$ 12.2 | \$ 31.0 | \$ 326.9 | \$ 338.1 | \$ 729.6 | \$ 780.9 |
| <i>(in millions)</i> | | | | | | | | |

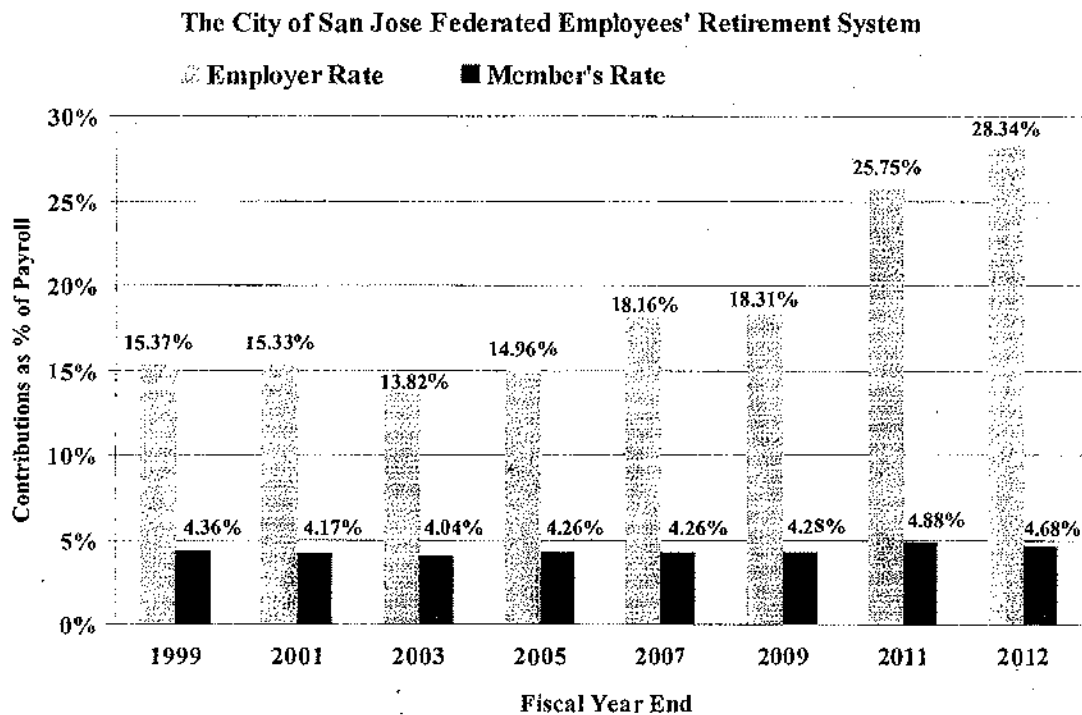
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

The previous chart indicates that from 1997 to 2001, SJFCERS' funding ratio improved, but was still in deficit status. Then, from 2001 to 2010 (with the exception of 2007), the funding ratio steadily declined. The decline is due primarily to investment experience. Based on the current difference between the market value of assets and the actuarial value of assets, a further decline in the funded status is expected over the next few years.

In the chart below, we present the historical trends for the System's contribution rates since the Fiscal Year Ending June 30, 1999. All information shown prior to the Fiscal Year Ending June 30, 2012 was calculated by the prior actuary. Also, please note that the Fiscal Year 2011 rates shown do not reflect the phase-in of contribution rates that was adopted. The phased-in rates were 4.54% and 23.18% for the Members and City respectively.

Employer and Member Contribution Rates 1999-2012



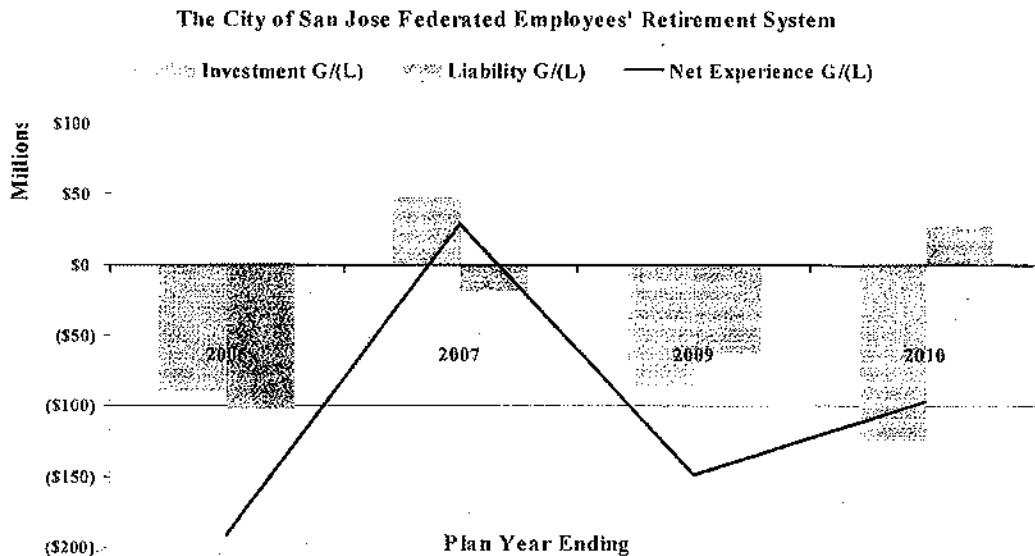
The key information in this chart is the increase in the employer contribution rate since 2003. The increase scheduled for the Fiscal Year Ending in 2012 is primarily due to recent investment experience. Employer contribution rate increases are expected for the next few years as the balance of the market value investment losses are recognized under the asset smoothing method and as the discount rate is decreased to 7.75%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

The next chart below represents the pattern of the System's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the System's assets and liabilities attributable to changes to methods, procedures or assumptions.

SJFCERS Historical Gain/(Loss) 2005-2010



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2010, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected over the next few years.
- On the liability side, three of the four valuations showed actuarial losses with 2010 as the only exception. The actuarial gain in 2010 is primarily due to actual salaries being less than expected.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

D. Projected Financial Trends

Our analysis of projected financial trends is an important part of this valuation. In this Section, we present our assessment of the implications of the June 30, 2010 valuation results on the future outlook for the System in terms of benefit security (assets over liabilities) and the expected cost progression.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the Employer contributions as a percent of payroll on two different bases:

- 1) Assuming 7.95% return for 2010 and each and every year after that, and
- 2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equals on average the assumed 7.95% return. We do this in order to illustrate the impact of volatility because the System's returns will never be level each and every year.

| | | | | | | | | | |
|---------------|-------|-------|--------|--------|--------|--------|-------|--------|--------|
| July 1, 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
| Return 29.00% | 8.00% | 3.00% | 20.00% | -4.00% | 18.00% | 13.00% | 9.00% | -7.00% | 16.00% |

| | | | | | | | | | |
|--------------|--------|-------|--------|--------|--------|---------|--------|--------|--------|
| July 1, 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 |
| Return 9.00% | -8.00% | 8.00% | 13.00% | 17.00% | -8.00% | -16.00% | 30.00% | 25.00% | -1.00% |

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and employer contribution rates. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

Projection Set 1: Assets and Liabilities

The chart below shows asset measures (green and gold lines) compared to liabilities (grey bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the projected declines in funded ratios over the next several years, as recent market losses become fully recognized, and how varying investment returns can impact the funding ratios.

Chart 1: Projection of Assets and Liabilities, 7.95% return each year

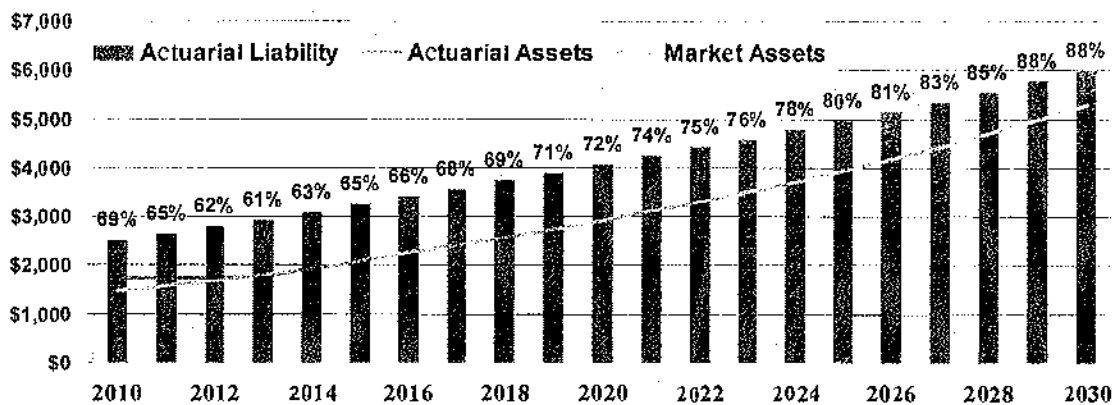
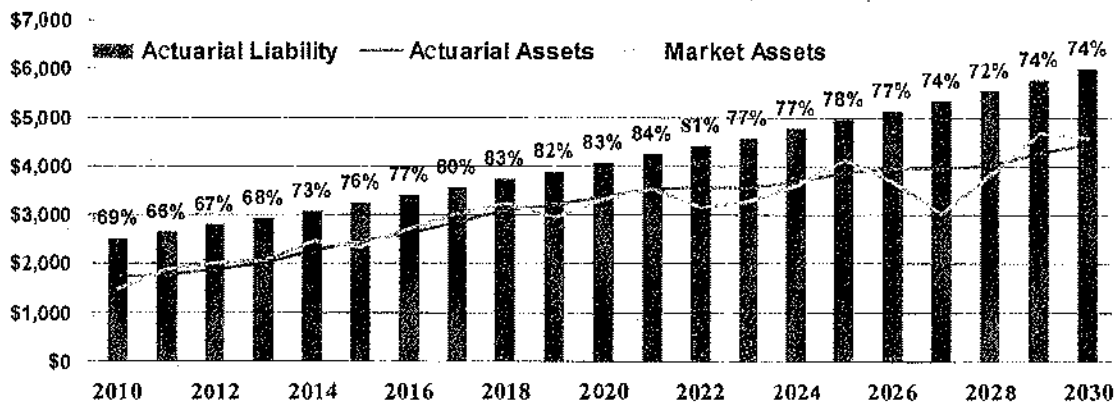


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.95% over time



SECTION I BOARD SUMMARY

Projection Set 2: Projected Employer Contribution Rate

As seen in the chart below, employer contribution rates are expected to increase over the next several years as the 2008-09 investment losses are fully recognized.

Chart 1: 7.95% return each year

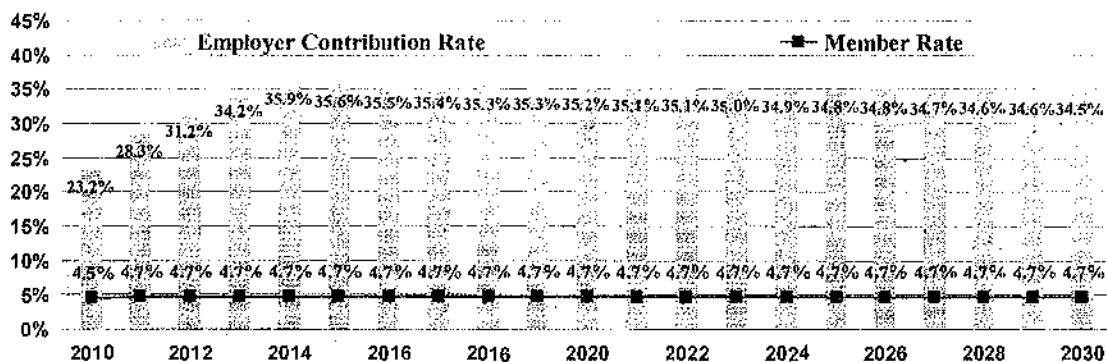
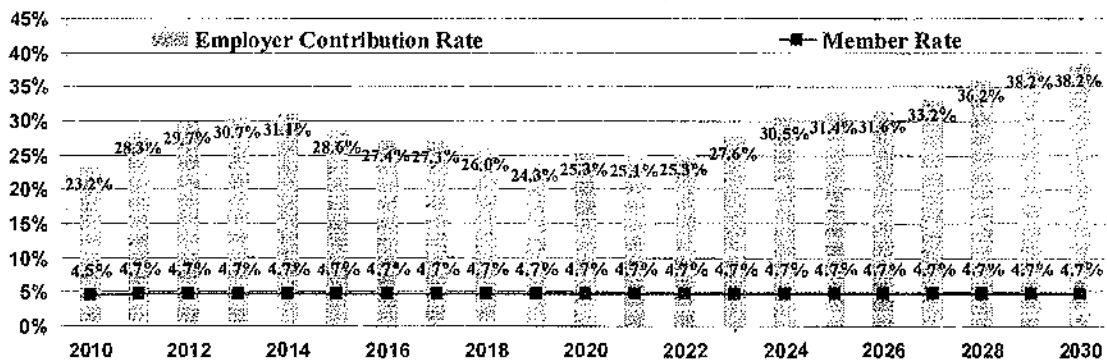


Chart 2: varying returns averaging 7.95% over time



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION II
ASSETS**

The System uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents, as of the valuation date, the value of the assets if they were liquidated on that date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages we present detailed information on the System's assets:

- A. Statement of cash flows during the year,
- B. Development of the actuarial value of assets,
- C. Discussion of investment performance for the year.

A. Cash Flows

Table II-1 shows sources for the change in the market value of assets.

| Table II-1 Change in Market Value of Assets | | | | |
|--|---------------|----------------|------------------|------------------|
| | June 30, 2010 | | | June 30, 2009 |
| | Basic** | Cost of Living | Total Retirement | Total Retirement |
| Market Value, Beginning of Year | \$ 990,811 | \$ 365,827 | \$ 1,356,638 | \$ 1,681,736 |
| Contributions | | | | |
| Member | 10,336 | 3,060 | 13,396 | 13,848 |
| City | 42,053 | 12,513 | 54,566 | 57,020 |
| Total | \$ 52,389 | \$ 15,573 | \$ 67,962 | \$ 70,868 |
| Net Investment Earnings* | \$ 148,152 | \$ 46,962 | \$ 195,114 | \$ (297,881) |
| Benefit Payments | \$ 83,030 | \$ 23,882 | \$ 106,912 | \$ 98,085 |
| Market Value, End of Year | \$ 1,108,322 | \$ 404,480 | \$ 1,512,802 | \$ 1,356,638 |

* Gross investment earnings less investment and administrative expenses

Amounts in thousands

** Includes SRBR of \$28,331 and \$19,786 as of End of Year and Beginning of Year respectively

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION II
ASSETS**

Table II-2 shows the development of excess earnings.

| Table II-2 Development of Excess Earnings as of June 30, 2010 | | | | |
|--|--------------------------------|-------------|----------------|--------------|
| | Retirement Fund Reserve | | | |
| | Employee | SRBR | General | Total |
| 1. Total Earnings | | | | \$ 148,152 |
| 2. Balance, July 1, 2009 | \$ 195,351 | \$ 19,786 | \$ 775,674 | \$ 990,811 |
| 3. Net Cashflow | \$ (11,704) | \$ - | \$ (18,937) | \$ (30,641) |
| 4. Crediting Rate | 3.00% | 7.75% | 7.75% | |
| 5. Primary Interest Crediting | \$ 5,906 | \$ 1,595 | \$ 71,147 | \$ 78,648 |
| 6. Balance, June 30, 2010 | \$ 189,553 | \$ 21,381 | \$ 827,884 | \$ 1,038,818 |
| 7. Excess Earnings | | \$ 6,950 | \$ 62,554 | \$ 69,504 |
| 8. Balance, July 1, 2010 | \$ 189,553 | \$ 28,331 | \$ 890,438 | \$ 1,108,322 |

Amounts in thousands

B. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets that differs from the market value of assets. The actuarial value of assets is based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return on the actuarial asset value (7.75% for 2009-10, 8.25% for prior years). The expected return on the actuarial value of assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years. (See Appendix B for further explanation of the asset valuation method).

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**SECTION II
ASSETS**

| Table II-3 Development of Actuarial Value of Assets | | | |
|--|----------------------|-----------------------|-------------------------|
| | June 30, 2010 | | |
| | Basic | Cost of Living | Total Retirement |
| Market Value of Assets | \$ 1,108,322 | \$ 404,480 | \$ 1,512,802 |
| Gains/(Losses) | | | |
| Current Year | 72,530 | 18,926 | 91,456 |
| Prior Year | (343,205) | (89,559) | (432,764) |
| 2nd Prior Year | (162,625) | (42,436) | (205,061) |
| 3rd Prior Year | 93,484 | 24,394 | 117,878 |
| Deferred Gains/(Losses) | | | |
| Current Year (80% deferred) | 58,024 | 15,141 | 73,165 |
| Prior Year (60% deferred) | (205,924) | (53,735) | (259,659) |
| 2nd Prior Year (40% deferred) | (65,049) | (16,975) | (82,024) |
| 3rd Prior Year (20% deferred) | 18,697 | 4,879 | 23,576 |
| Total | \$ (194,253) | \$ (50,690) | \$ (244,943) |
| SRBR Reserve | \$ 28,331 | \$ - | \$ 28,331 |
| Actuarial Value of Assets | \$ 1,274,244 | \$ 455,170 | \$ 1,729,414 |

Amounts in thousands

C. Investment Performance

The market value of assets internal rate of return, net of investment expenses, was 14.6% for the year ending June 30, 2010. This is compared to an assumed return of 7.75%.

On an actuarial value of assets basis, the return for the year ending June 30, 2010 was 0.7%. The difference is largely due to the recognition of deferred losses from prior years while 80% of the gain for 2010 is deferred to future years. This return produced an overall investment loss of \$124.1 million for the year ending June 30, 2010.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION III
LIABILITIES

In this section, we present detailed information on liabilities for the System, including:

- Disclosure of liabilities at June 30, 2009 and June 30, 2010, and
- Statement of changes in the unfunded actuarial liabilities during the year.

A. Disclosure

Two types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of all Future Benefits:** Used for measuring all future obligations, represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.
- **Actuarial Liability-Entry Age Normal (EAN):** Used for determining employer contributions and GASB accounting disclosures. This liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EAN actuarial funding method. It represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date.

Table III-1 and Table III-2 on the following page disclose the liabilities for the current and prior year's valuations. By subtracting the actuarial value of assets from the actuarial liability, the net surplus or an unfunded actuarial liability (UAL) is determined.

Table III-3 shows the Entry Age Normal Cost as a percentage of pay. The Entry Age Normal Cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the EAN actuarial funding method.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

| Table III-1 Present Value of Future Benefits | | | | |
|---|----------------------|-----------------------|-------------------------|-------------------------|
| | June 30, 2010 | | | June 30, 2009 |
| | Basic | Cost of Living | Total Retirement | Total Retirement |
| Actives | | | | |
| Retirement | \$ 892,594 | \$ 296,688 | \$ 1,189,282 | \$ 1,308,642 |
| Termination | 77,573 | 20,126 | 97,699 | 109,640 |
| Death | 26,287 | 8,073 | 34,360 | 37,193 |
| Disability | 50,875 | 15,341 | 66,216 | 71,629 |
| Total Actives | \$ 1,047,329 | \$ 340,228 | \$ 1,387,557 | \$ 1,527,104 |
| Retirees | 980,508 | 290,802 | 1,271,310 | 1,159,499 |
| Beneficiaries | 65,033 | 16,898 | 81,931 | 77,423 |
| Disabled | 51,027 | 14,527 | 65,554 | 63,844 |
| Deferred Vested | 63,964 | 21,940 | 85,904 | 92,348 |
| Total | \$ 2,207,861 | \$ 684,396 | \$ 2,892,256 | \$ 2,920,218 |

Amounts in thousands

| Table III-2 Actuarial Liability | | | | |
|--|----------------------|-----------------------|-------------------------|-------------------------|
| | June 30, 2010 | | | June 30, 2009 |
| | Basic | Cost of Living | Total Retirement | Total Retirement |
| Actives | | | | |
| Retirement | \$ 679,851 | \$ 226,488 | \$ 906,339 | \$ 986,710 |
| Termination | 33,110 | 9,208 | 42,318 | 46,903 |
| Death | 15,744 | 4,696 | 20,440 | 21,590 |
| Disability | 28,433 | 8,129 | 36,562 | 37,838 |
| Total Actives | \$ 757,138 | \$ 248,521 | \$ 1,005,659 | \$ 1,093,041 |
| Retirees | 980,508 | 290,802 | 1,271,310 | 1,159,499 |
| Beneficiaries | 65,033 | 16,898 | 81,931 | 77,423 |
| Disabled | 51,027 | 14,527 | 65,554 | 63,844 |
| Deferred Vested | 63,964 | 21,940 | 85,904 | 92,348 |
| Total | \$ 1,917,670 | \$ 592,689 | \$ 2,510,358 | \$ 2,486,155 |

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

| Table III-3 Entry Age Normal Cost | | | | |
|--------------------------------------|---------------|----------------|------------------|------------------|
| | June 30, 2010 | | | June 30, 2009 |
| | Basic | Cost of Living | Total Retirement | Total Retirement |
| Retirement | 9.85% | 3.23% | 13.08% | 13.63% |
| Termination | 1.67% | 0.39% | 2.06% | 2.14% |
| Death | 0.50% | 0.16% | 0.66% | 0.67% |
| Disability | 1.05% | 0.33% | 1.38% | 1.44% |
| Reciprocity | 0.20% | 0.06% | 0.26% | 0.28% |
| Total | 13.27% | 4.17% | 17.44% | 18.16% |

B. Changes in Unfunded Actuarial Liabilities

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Below we present key changes in liabilities since the last valuation.

| Table III-4 Development of 2010 Experience Gain/(Loss) | | |
|--|--------|-----------|
| Item | Amount | |
| 1 Unfunded Actuarial Liability at June 30, 2009 | \$ | 729,567 |
| 2 Expected unfunded accrued liability payment | | 39,555 |
| 3 Interest accrued ((1-2) x 0.0775) | | 53,476 |
| 4 Decrease due to change in assumptions | | (59,363) |
| 5 Expected Unfunded Actuarial Liability at June 30, 2010 (1-2+3+4) | | 684,126 |
| 6 Actual Unfunded Liability at June 30, 2010 | | 780,944 |
| 7 Difference: (5 - 6) | | (96,819) |
| a. Portion of (7) due to change in actuary | \$ | 14,635 |
| b. Portion of (7) due to investment gain or loss | | (124,137) |
| c. Portion of (7) due to salary increases | | 45,018 |
| d. Portion of (7) due to actual vs. expected contributions* | | (33,102) |
| e. Portion of (7) due to other experience | | 767 |
| f Total | \$ | (96,819) |

Amounts in thousands

* The change due to contributions is composed of \$29.9 million due to the one-year lag between the valuation date and effective date of contribution rates plus \$3.2 million due to the difference between actual and expected payroll

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

**SECTION IV
CONTRIBUTIONS**

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

The actuarial funding methodology employed is the Entry Age Normal actuarial funding method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the EAN actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL is made up of the unamortized UAL as of June 30, 2009 plus the impact of the 2010 experience and assumption change.

Table IV-1 provides the payment schedules to amortize the unfunded liability as of June 30, 2009 over 30 years, and any additional actuarial gains/(losses), assumption or method changes after June 30, 2009 over 20 years.

Table IV-2 shows how the employer's contribution rate for FYE 2012 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

Table IV-3 shows the employer's contribution dollar amounts for FY 2012 assuming contributions are made at the beginning of the fiscal year. To the extent contributions are made after the beginning of the fiscal year, the amounts should be increased at an annual rate of 7.95 percent.

SECTION IV
CONTRIBUTIONS

| Table IV-1 UAL Amortization | | | | |
|---------------------------------|------------------------|---------------------|------------------|---------------|
| | Outstanding Balance | Remaining Period | Payment | |
| | | | \$ Amount | % of Pay |
| Basic Retirement Benefit | | | | |
| Golden Handshake | \$ 16,216 | 29 | \$ 980 | 0.32% |
| 2009 UAL | 581,040 | 29 | 35,118 | 11.45% |
| 2010 (Gain) or Loss | 84,340 | 20 | 6,390 | 2.08% |
| 2010 Assumption Change | (38,172) | 20 | (2,892) | -0.94% |
| Total | \$ 643,425 | | \$ 39,596 | 12.91% |
| Cost of Living Benefit | | | | |
| Golden Handshake | \$ 3,943 | 29 | \$ 238 | 0.08% |
| 2009 UAL | 142,289 | 29 | 8,600 | 2.81% |
| 2010 (Gain) or Loss | 12,478 | 20 | 945 | 0.31% |
| 2010 Assumption Change | (21,190) | 20 | (1,605) | -0.52% |
| Total | \$ 137,520 | | \$ 8,178 | 2.67% |
| Total | \$ 780,944 | | \$ 47,774 | 15.58% |

| Table IV-2 Contribution Rates | | | | | | |
|----------------------------------|---------------------|--------------|---------------|---------------------|--------------|---------------|
| | Fiscal Year 2011-12 | | | Fiscal Year 2010-11 | | |
| | Basic | COLA | Total | Basic | COLA | Total |
| Member Contribution Rate | 3.56% | 1.12% | 4.68% | 3.69% | 1.19% | 4.88% |
| City Service Normal Rate | 9.51% | 2.98% | 12.49% | 9.84% | 3.16% | 13.00% |
| City Reciprocity Normal Rate | 0.20% | 0.07% | 0.27% | 0.21% | 0.07% | 0.28% |
| Total City Normal Rate | 9.71% | 3.05% | 12.76% | 10.05% | 3.23% | 13.28% |
| City Deficiency Rate | 12.59% | 2.59% | 15.18% | 9.19% | 2.95% | 12.14% |
| City Golden Handshake Rate | 0.32% | 0.08% | 0.40% | 0.26% | 0.08% | 0.34% |
| Total City UAL Rate | 12.91% | 2.67% | 15.58% | 9.45% | 3.03% | 12.48% |
| City ARC Rate | 22.62% | 5.72% | 28.34% | 19.49% | 6.25% | 25.75% |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

| Table IV-3 City Contribution Amounts (BOY) | | | | | | |
|---|------------------|------------------|------------------|------------------|------------------|------------------|
| | July 1, 2011 | | | July 1, 2010 | | |
| | Basic | COLA | Total | Basic | COLA | Total |
| City Service Normal Cost | \$ 29,148 | \$ 9,146 | \$ 38,294 | \$ 32,390 | \$ 10,404 | \$ 42,794 |
| City Reciprocity Normal Cost | 608 | 212 | 820 | 691 | 230 | 922 |
| Total City Normal Cost | \$ 29,756 | \$ 9,358 | \$ 39,114 | \$ 33,081 | \$ 10,634 | \$ 43,715 |
| City Deficiency Cost | \$ 38,616 | \$ 7,940 | \$ 46,555 | \$ 30,240 | \$ 9,712 | \$ 39,953 |
| City Golden Handshake Cost | 980 | 238 | 1,218 | 856 | 263 | 1,119 |
| Total City UAL Cost | \$ 39,596 | \$ 8,178 | \$ 47,774 | \$ 31,096 | \$ 9,976 | \$ 41,072 |
| City Annual Required Contribution | \$ 69,352 | \$ 17,536 | \$ 86,888 | \$ 64,177 | \$ 20,610 | \$ 84,787 |

Amounts in thousands

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The GASB No. 25 disclosure presents the actuarial liability computed for funding purposes to the actuarial value of assets to determine a funded ratio. The actuarial liability is determined assuming that members continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.95% per annum.

GASB Statement No. 25 requires the actuarial liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2009 and June 30, 2010 are presented in Table V-1.

| Table V-1 Federated City Employees' Retirement System | | | |
|--|----------------------|-----------------------|-----------------|
| Item | June 30, 2010 | June 30, 2009* | % Change |
| GASB No. 25 Basis | | | |
| 1. Actuarial Liabilities | | | |
| a. Members Currently Receiving Payments | \$ 1,418,794 | \$ 1,300,766 | 9.1% |
| b. Vested Terminated and Inactive Members | 85,904 | 92,348 | -7.0% |
| c. Active Members | 1,005,660 | 1,093,041 | -8.0% |
| d. Total Actuarial Liability | \$ 2,510,358 | \$ 2,486,155 | 1.0% |
| 2. Actuarial Value of Assets | \$ 1,729,414 | \$ 1,756,588 | -1.5% |
| 3. Unfunded Actuarial Liability | \$ 780,944 | \$ 729,567 | 7.0% |
| 4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d) | 68.89% | 70.65% | -1.8% |

* Results prior to 7/1/2010 calculated by prior actuary

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-2 through V-5 are exhibits for use in the System's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information. Table V-3 presents an analysis of financial experience for the valuation year; Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets; and Table V-5 presents the Schedule of Funding Progress.

| Table V-2 Federated City Employees' Retirement System NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | |
|--|---|
| The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows. | |
| Valuation date | June 30, 2010 |
| Actuarial funding method | Entry Age Normal |
| Amortization method | Level percent of pay, closed, layered |
| Equivalent single amortization period | 28.4 Years |
| Asset valuation method | 5 year smoothing of return over or under expected returns |
| Actuarial assumptions: | |
| Investment rate of return | 7.95% |
| Projected salary increases due to wage inflation ¹ | 3.90% |
| Cost-of-living adjustments | 3.0% per year |
| The actuarial assumptions used have been recommended by the actuary and adopted by the Federated Board based on the most recent review of Federated experience, completed in 2009. | |
| The rate of employer contributions to Federated is composed of the normal cost, reciprocity normal cost, amortization of the unfunded actuarial liability and the golden handshake rate. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability. | |

¹ Additional merit salary increases of 1.00% to 5.75% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

| Table V-3 City of San Jose Federated City Employees' Retirement System ANALYSIS OF FINANCIAL EXPERIENCE Gain (or Loss) in Actuarial Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience | |
|---|---|
| Type of Activity | Gain (or Loss) for Year Ending June 30, 2010 |
| Investment Income | (\$124,137) |
| Combined Liability Experience | <u>45,785</u> |
| Gain (or Loss) During Year from Financial Experience | (\$78,352) |
| Non-Recurring Gain (or Loss) Items | <u>(18,467)</u> |
| Composite Gain (or Loss) During Year | (\$96,819) |

Amounts in thousands

| Table V-4 City of San Jose Federated City Employees' Retirement System GASB SOLVENCY TEST Actuarial Liabilities For | | | | | | | | |
|--|--|---|---|---------------------|---|------|-----|--|
| Valuation Date June 30, ** | (A) Active Member Contributions | (B) Retirees, Beneficiaries and Other Inactives | (C) Remaining Active Members' Liabilities | Reported Assets* | Portion of Actuarial Liabilities Covered by Reported Assets | | | |
| | | | | | (A) | (B) | (C) | |
| 2010 | \$ 242,944 | \$ 1,504,698 | \$ 762,716 | \$ 1,729,414 | 100% | 99% | 0% | |
| 2009 | \$ 228,967 | \$ 1,393,114 | \$ 864,074 | \$ 1,756,588 | 100% | 100% | 16% | |
| 2007 | \$ 214,527 | \$ 1,003,001 | \$ 743,415 | \$ 1,622,851 | 100% | 100% | 55% | |
| 2005 | \$ 230,027 | \$ 824,043 | \$ 657,300 | \$ 1,384,454 | 100% | 100% | 50% | |
| 2003 | \$ 224,875 | \$ 635,092 | \$ 451,724 | \$ 1,280,719 | 100% | 100% | 93% | |
| 2001 | \$ 210,377 | \$ 529,853 | \$ 332,103 | \$ 1,060,144 | 100% | 100% | 96% | |

* Actuarial Value of Assets

Amounts in thousands

** Results prior to 7/1/2010 calculated by prior actuary

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

| Table V-5 Schedule of Funding Progress | | | | | | |
|---|--------------------------------------|-------------------------------------|------------------------|-------------------------|----------------------------|--|
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Liability (AL) | Unfunded AL | Funded Ratio | Covered Payroll | Unfunded AL as a % of Covered Payroll |
| June 30, 2001 | \$1,060,144 | \$1,072,333 | \$12,189 | 99% | \$252,696 | 5% |
| June 30, 2003 | \$1,280,719 | \$1,311,691 | \$30,972 | 98% | \$292,961 | 11% |
| June 30, 2005 | \$1,384,454 | \$1,711,370 | \$326,916 | 81% | \$286,446 | 114% |
| June 30, 2007 | \$1,622,851 | \$1,960,943 | \$338,092 | 83% | \$291,405 | 116% |
| June 30, 2009* | \$1,756,588 | \$2,486,155 | \$729,567 | 71% | \$323,020 | 226% |
| June 30, 2010 | \$1,729,414 | \$2,510,358 | \$780,944 | 69% | \$300,811 | 260% |

* Amounts for June 30, 2009 and earlier were calculated by the prior actuary

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-1 San Jose Federated City Employees' Retirement System Active Member Data | | | |
|--|----------------|----------------|----------|
| | June 30, 2010 | June 30, 2009 | % Change |
| Total | | | |
| Count | 3,818 | 4,079 | -6.4% |
| Average Current Age | 45.9 | 45.5 | 0.9% |
| Average Service | 12.1 | 11.6 | 4.3% |
| Annual Expected Pensionable Earnings | \$ 300,811,165 | \$ 323,020,387 | -6.9% |
| Average Expected Pensionable Earnings | \$ 78,788 | \$ 79,191 | -0.5% |

| Table A-2 San Jose Federated City Employees' Retirement System Non-Active Member Data | | | | | | |
|--|---------------|---------------|----------|---------------|---------------|----------|
| | Count | | | Average Age | | |
| | June 30, 2010 | June 30, 2009 | % Change | June 30, 2010 | June 30, 2009 | % Change |
| Total | | | | | | |
| Retired & Disabled | 2,683 | 2,518 | 6.6% | 68.2 | 68.3 | -0.1% |
| Beneficiaries | 428 | 412 | 3.9% | 72.7 | 72.6 | 0.1% |
| Payec Total | 3,111 | 2,930 | 6.2% | 68.9 | 68.9 | 0.0% |
| Inactives | 734 | 719 | 2.1% | 45.6 | 45.3 | 0.7% |

| Table A-3 San Jose Federated City Employees' Retirement System Non-Active Member Data | | | | | | |
|--|-----------------------|----------------|----------|-------------------------|---------------|----------|
| | Total Annual Benefit* | | | Average Annual Benefit* | | |
| | June 30, 2010 | June 30, 2009 | % Change | June 30, 2010 | June 30, 2009 | % Change |
| Total | | | | | | |
| Retired & Disabled | \$ 104,841,445 | \$ 93,987,905 | 11.5% | \$ 39,076 | \$ 37,326 | 4.7% |
| Beneficiaries | 7,818,669 | 7,205,802 | 8.5% | 18,268 | 17,490 | 4.4% |
| Payec Total | \$ 112,660,114 | \$ 101,193,707 | 11.3% | \$ 36,213 | \$ 34,537 | 4.9% |
| Inactives** | \$ 9,611,703 | \$ 9,498,067 | 1.2% | \$ 13,095 | \$ 13,210 | -0.9% |

* Benefits provided in June 30 valuation data

** For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION**

**APPENDIX A
MEMBERSHIP INFORMATION**

**Table A-4
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2010**

| Age | Under 1 | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 and up | Total |
|--------------------|-----------|------------|------------|------------|------------|------------|------------|-----------|----------|-----------|--------------|
| Under 25 | 5 | 29 | - | - | - | - | - | - | - | - | 34 |
| 25 to 29 | 17 | 184 | 21 | 1 | - | - | - | - | - | - | 223 |
| 30 to 34 | 10 | 195 | 123 | 36 | - | - | - | - | - | - | 364 |
| 35 to 39 | 10 | 118 | 165 | 161 | 20 | - | - | - | - | - | 474 |
| 40 to 44 | 2 | 110 | 137 | 177 | 70 | 46 | 1 | - | - | - | 543 |
| 45 to 49 | 4 | 101 | 108 | 159 | 95 | 164 | 41 | - | - | - | 672 |
| 50 to 54 | 3 | 94 | 93 | 123 | 95 | 171 | 96 | 7 | - | - | 682 |
| 55 to 59 | 1 | 63 | 87 | 118 | 55 | 107 | 36 | 6 | 1 | - | 474 |
| 60 to 64 | 6 | 21 | 46 | 69 | 38 | 51 | 20 | 2 | 1 | - | 255 |
| 65 to 69 | - | 7 | 15 | 33 | 6 | 10 | 5 | - | - | - | 76 |
| 70 and up | - | 2 | - | 12 | 4 | 2 | 1 | - | - | - | 21 |
| Total Count | 58 | 924 | 795 | 889 | 383 | 551 | 200 | 15 | 2 | 1 | 3,818 |

**Table A-5
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2010**

| Age | Average Expected Salary Years of Service | | | | | | | | | | Total |
|-------------|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|
| | Under 1 | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 and up | |
| Under 25 | \$ 43,640 | \$ 48,460 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 47,751 |
| 25 to 29 | 49,543 | 60,177 | 57,009 | 58,011 | - | - | - | - | - | - | 59,058 |
| 30 to 34 | 65,672 | 64,684 | 72,273 | 71,019 | - | - | - | - | - | - | 67,902 |
| 35 to 39 | 70,385 | 69,904 | 75,691 | 81,107 | 77,591 | - | - | - | - | - | 76,058 |
| 40 to 44 | 51,854 | 73,145 | 79,368 | 79,685 | 84,774 | 82,289 | 100,942 | - | - | - | 79,094 |
| 45 to 49 | 79,004 | 73,189 | 82,513 | 83,559 | 91,004 | 83,766 | 81,959 | - | - | - | 82,810 |
| 50 to 54 | 57,651 | 74,193 | 81,415 | 81,227 | 90,661 | 86,072 | 89,194 | 72,051 | - | - | 83,736 |
| 55 to 59 | 139,600 | 80,029 | 89,033 | 83,464 | 86,914 | 91,184 | 82,735 | 75,899 | 81,723 | - | 86,136 |
| 60 to 64 | 103,903 | 76,214 | 74,925 | 80,755 | 86,307 | 82,705 | 101,326 | 80,558 | 132,306 | 84,614 | 82,921 |
| 65 to 69 | - | 69,389 | 89,540 | 78,567 | 82,742 | 88,140 | 67,729 | - | - | - | 80,763 |
| 70 and up | - | 83,006 | - | 67,867 | 67,101 | 68,588 | 47,986 | - | - | - | 68,293 |
| Avg. Salary | \$ 65,115 | \$ 68,232 | \$ 78,576 | \$ 80,857 | \$ 87,617 | \$ 85,725 | \$ 87,077 | \$ 74,725 | \$ 107,115 | \$ 84,614 | \$ 78,788 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
San Jose Federated City Employees' Retirement System
Retirees and Disabled by Attained Age and Benefit Effective Date
As of June 30, 2010

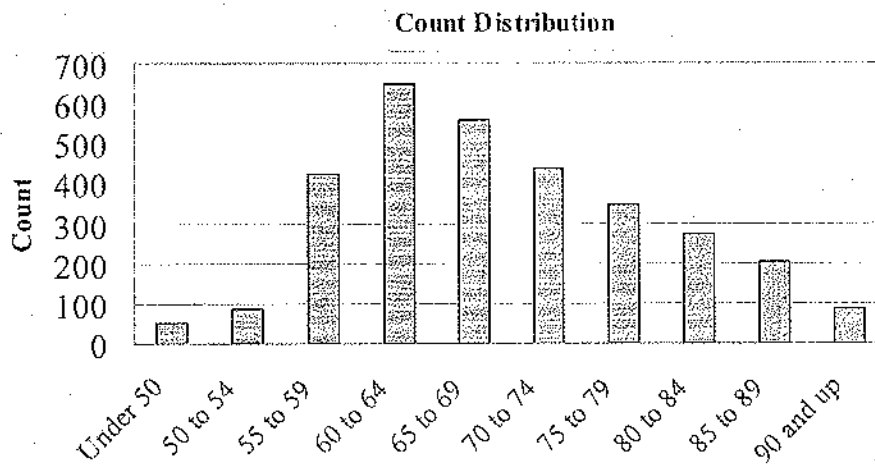
| Benefit Effective | Under 50 | 50 to 54 | 55 to 59 | 60 to 64 | 65 to 69 | 70 to 74 | 75 to 79 | 80 to 84 | 85 to 89 | 90 and up | Total |
|--------------------------------------|-----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-------|
| Pre-1991 | - | 1 | 3 | 6 | 7 | 20 | 125 | 137 | 126 | 18 | 473 |
| 1991 | - | - | - | 2 | 1 | 10 | 16 | 9 | 4 | - | 42 |
| 1992 | - | - | 1 | 1 | 1 | 15 | 8 | 8 | 2 | - | 36 |
| 1993 | 1 | - | 2 | 1 | 16 | 61 | 31 | 21 | 10 | 1 | 144 |
| 1994 | - | 1 | 1 | 2 | 10 | 32 | 7 | 4 | 3 | - | 60 |
| 1995 | 1 | 1 | 1 | 2 | 1 | 16 | 10 | 9 | 1 | 1 | 42 |
| 1996 | 2 | 1 | 1 | - | 10 | 14 | 9 | 1 | 1 | - | 39 |
| 1997 | 1 | - | - | 2 | 34 | 17 | 15 | 2 | - | - | 71 |
| 1998 | 1 | - | 3 | 2 | 30 | 15 | 13 | - | - | - | 64 |
| 1999 | 1 | 1 | 1 | 6 | 45 | 13 | 9 | 4 | 1 | - | 83 |
| 2000 | - | - | 1 | 11 | 54 | 17 | 6 | 1 | - | - | 90 |
| 2001 | - | 1 | 3 | 13 | 46 | 20 | 4 | 2 | - | - | 89 |
| 2002 | 1 | 2 | 3 | 66 | 36 | 35 | 7 | 3 | 1 | - | 154 |
| 2003 | 1 | 1 | 6 | 62 | 29 | 18 | 4 | 2 | - | - | 123 |
| 2004 | 4 | 1 | 18 | 79 | 24 | 15 | 4 | - | - | - | 145 |
| 2005 | - | 2 | 12 | 95 | 39 | 22 | 6 | 2 | - | - | 178 |
| 2006 | 6 | 5 | 34 | 70 | 30 | 15 | 1 | - | - | - | 161 |
| 2007 | 1 | 8 | 61 | 48 | 26 | 10 | 1 | 3 | - | - | 158 |
| 2008 | 4 | 7 | 72 | 53 | 26 | 8 | 3 | - | - | - | 173 |
| 2009 | 3 | 17 | 68 | 36 | 17 | 6 | - | - | - | - | 147 |
| 2010 | 1 | 21 | 107 | 54 | 22 | 2 | 1 | - | - | - | 208 |
| Unknown | - | 1 | 1 | - | 1 | - | - | - | - | - | 4 |
| Total | 27 | 71 | 400 | 610 | 508 | 381 | 280 | 208 | 148 | 50 | 2,683 |
| Average Age at Retirement/Disability | 68.3 | | | | | | | | | | |
| Average Current Age | 68.9 | | | | | | | | | | |
| Average Annual Pension | \$ 36,213 | | | | | | | | | | |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-7 San Jose Federated City Employees' Retirement System Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2010 | |
|---|-------|
| Age | Count |
| Under 50 | 51 |
| 50 to 54 | 85 |
| 55 to 59 | 425 |
| 60 to 64 | 650 |
| 65 to 69 | 557 |
| 70 to 74 | 436 |
| 75 to 79 | 347 |
| 80 to 84 | 273 |
| 85 to 89 | 202 |
| 90 and up | 85 |
| Total | 3,111 |

Chart A-1

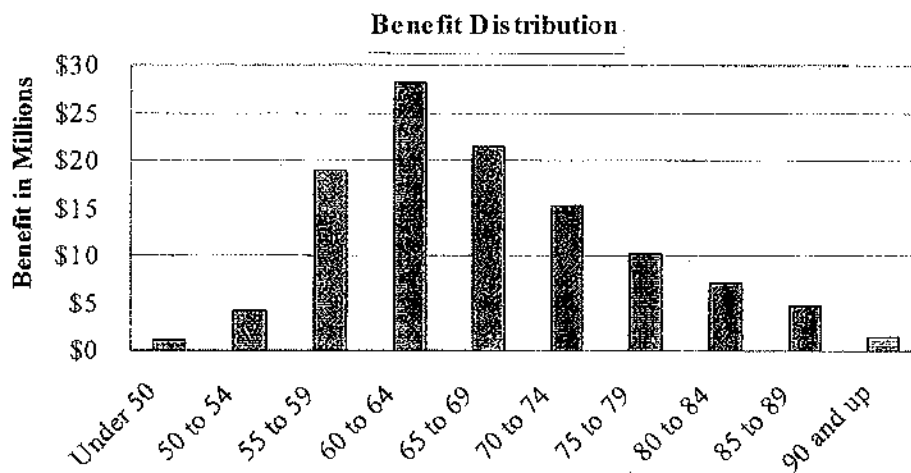


FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010-ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-8 San Jose Federated City Employees' Retirement System Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2010 | |
|---|----------------|
| Age | Annual Benefit |
| Under 50 | \$1,116,659 |
| 50 to 54 | \$4,200,736 |
| 55 to 59 | \$18,922,135 |
| 60 to 64 | \$28,173,529 |
| 65 to 69 | \$21,493,942 |
| 70 to 74 | \$15,297,510 |
| 75 to 79 | \$10,231,195 |
| 80 to 84 | \$7,033,543 |
| 85 to 89 | \$4,728,885 |
| 90 and up | \$1,461,981 |
| Total | \$112,660,114 |

Chart A-2



APPENDIX A MEMBERSHIP INFORMATION

Data Assumptions and Methods

In preparing our data, we relied without audit on information supplied by the Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Records on the "Active" data file are considered to be Active if they do not have a reason for termination.
- Records on any of the data files are considered to be Inactive if they have a reason for termination of deferred vested or leave of absence/inactive.
- Records on the "Retiree" and "Beneficiary/QDRO" files are considered in pay status if they do not have a date of death, are not inactive and have not withdrawn from the plan.
- Service for actives that have no service amount is calculated to be the time from date of hire to the valuation date.
- Service for inactives that have no service amount is calculated to be the time from date of hire to date of termination.
- The most recent annual salary for actives is calculated to be "compensation rate 2" multiplied by 26. If the annualized rate is less than \$23,400, a minimum annual salary of \$39,000 is used.
- The annual benefit for inactives is equal to 2.5% of final compensation per year of service, up to a maximum of 75% of final compensation. Members who terminated prior to June 30, 2001 have their final compensation adjusted for a three-year average rather than a 12-month average.
- We assume any member found in last year's "Retiree" file and not in this year's file has deceased without a beneficiary and should be removed from the valuation data.
- We assume all deceased members with payments continuing to a beneficiary have already been accounted for in the "Retiree" file.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.95% net of investment and administrative expenses.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Salary Increase Rate

Wage inflation component 3.90%

In addition, the following merit component is added based on an individual member's years of service:

| Table B-1 Salary Merit Increases | |
|-------------------------------------|------------------|
| Years of Service | Merit/ Longevity |
| 0 | 5.75% |
| 1 | 3.75 |
| 2 | 2.25 |
| 3 | 1.75 |
| 4 | 1.00 |
| 5+ | 0.25 |

4. Family Composition

Percentage married is shown in the following Table B-2. Women are assumed to be three years younger than men.

| Table B-2 Percentage Married | |
|---------------------------------|------------|
| Gender | Percentage |
| Males | 75% |
| Females | 55% |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

5. Rates of Withdrawal/Termination

Sample rates of withdrawal/termination are show in the following Table B-3.

| Table B-3 Rates of Termination/Withdrawal | | |
|--|-------------------|---------------------------|
| Age | Withdrawal | Vested Termination |
| 20 | 11.00% | 0.00% |
| 25 | 7.00 | 3.00 |
| 30 | 5.00 | 3.00 |
| 35 | 2.50 | 2.75 |
| 40 | 1.50 | 2.00 |
| 45 | 1.25 | 2.00 |
| 50 | 1.25 | 1.50 |
| 55 | 1.00 | 0.00 |
| 60 | 1.00 | 0.00 |
| 65 | 0.00 | 0.00 |

* Withdrawal/termination rates do not apply once a member is eligible for retirement

30% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.9% pay increases per year.

6. Rates of Disability

Sample disability rates of active participants are provided in Table B-4.

| Table B-4 Rates of Disability at Selected Ages | |
|---|-------------------|
| Age | Disability |
| 20 | 0.04% |
| 25 | 0.06 |
| 30 | 0.07 |
| 35 | 0.09 |
| 40 | 0.15 |
| 45 | 0.25 |
| 50 | 0.40 |
| 55 | 0.50 |
| 60 | 1.00 |
| 65 | 2.00 |
| 70 | 0.00 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

7. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct 1994 Group Annuity Mortality Tables setback three years for males and one year for females.

| Table B-5 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages | | |
|---|-------------|---------------|
| Age | Male | Female |
| 20 | 0.043% | 0.028% |
| 25 | 0.056 | 0.029 |
| 30 | 0.073 | 0.033 |
| 35 | 0.084 | 0.045 |
| 40 | 0.089 | 0.065 |
| 45 | 0.125 | 0.092 |
| 50 | 0.190 | 0.131 |
| 55 | 0.321 | 0.208 |
| 60 | 0.558 | 0.386 |
| 65 | 1.015 | 0.762 |
| 70 | 1.803 | 1.271 |
| 75 | 2.848 | 2.038 |
| 80 | 4.517 | 3.536 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

8. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the 1981 Disability Mortality Table.

| Table B-6 Rates of Mortality for Disabled Lives at Selected Ages | | |
|--|--------|--------|
| Age | Male | Female |
| 20 | 0.660% | 0.660% |
| 25 | 0.960 | 0.960 |
| 30 | 1.220 | 1.220 |
| 35 | 1.480 | 1.480 |
| 40 | 1.760 | 1.760 |
| 45 | 2.080 | 2.080 |
| 50 | 2.440 | 2.440 |
| 55 | 2.840 | 2.840 |
| 60 | 3.300 | 3.300 |
| 65 | 3.790 | 3.790 |
| 70 | 4.370 | 4.370 |
| 75 | 5.530 | 5.530 |
| 80 | 8.740 | 8.740 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Retirement

Rates of retirement are based on age according to the following Table B-7.

| Table B-7 Rates of Retirement by Age | |
|---|------------|
| Age | Retirement |
| 50 | 0.00% |
| 51 | 0.00 |
| 52 | 0.00 |
| 53 | 0.00 |
| 54 | 0.00 |
| 55 | 15.00 |
| 56 | 7.50 |
| 57 | 7.50 |
| 58 | 7.50 |
| 59 | 7.50 |
| 60 | 7.50 |
| 61 | 7.50 |
| 62 | 20.00 |
| 63 | 10.00 |
| 64 | 10.00 |
| 65 | 25.00 |
| 66 | 25.00 |
| 67 | 25.00 |
| 68 | 25.00 |
| 69 | 25.00 |
| 70 & over | 100.00 |

The probability of retirement increased to 50% each year after completion of 30 years of service and attainment of age 50.

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

10. Deferred Member Benefit

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

11. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

12. Changes Since Last Valuation

The assumption for the expected rate of return on investments was changed from 7.75% to 7.95%. The payroll growth/wage inflation assumption was changed from 3.83% to 3.90%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The unfunded actuarial accrued liability as of June 30, 2009 is amortized as a level percentage of pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of pay over a 20-year period beginning with the valuation date in which they first arise.

2. Asset Valuation Method

For the purposes of determining the employer's contribution, we use an actuarial value of assets. The asset adjustment method dampens the volatility in asset values that could occur because of the fluctuations in market conditions. Use of an asset smoothing method is consistent with the long-term nature of the actuarial valuation process. Assets are assumed to be used exclusively for the provision of retirement benefits and expenses.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return (7.75% for 2009-10 and 8.25% for prior years) on the actuarial asset value. The expected return on market assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years.

3. Annual Required Contribution

At its November 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Participation in the plan is immediate upon the first day of full-time employment.

2. Final Compensation

Members who separated from city service prior to June 30, 2001:

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001:

The highest average annual compensation earnable during any period of twelve consecutive months.

3. Credited Service

One year of service credit is given for one thousand seven hundred thirty-nine or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to one thousand seven hundred thirty-nine) is given for each calendar year with less than one thousand seven hundred thirty-nine hours worked.

4. Member Contributions

a. Member:

The amount needed to fund 3/11 of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

b. Employer:

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5. Service Retirement

Eligibility

Age 55 with 5 years of service, or any age with 30 years of service.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2010 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit - Survivor

50% of the service retirement benefit paid to a qualified survivor.

6. Service-Connected Disability Retirement

Eligibility

No age or service requirement.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

7. Non-Service Connected Disability Retirement

Eligibility

5 years of service.

Benefit - Member

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded fifty-five.

Members who were hired on or after September 1, 1998:

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between 6 and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

APPENDIX C
SUMMARY OF PLAN PROVISIONS

8. Death while an Active Employee

Less than 5 Years of Service, or No Qualified Survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of 6 years.

5 or more Years of Service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9. Withdrawal Benefits

Less than 5 Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest.

5 or more years of credited service:

The amount of the service retirement benefit, payable at age 55.

10. Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, without banking.

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

**APPENDIX D
GLOSSARY OF TERMS**

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial liability".

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the System which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method".

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

APPENDIX D
GLOSSARY OF TERMS

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump sum payment.

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The SJFCERS Employer computed contribution rate for FY 2011 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method.

11. Set back/Set forward

Set back is a period of years that a standard published table (i.e. mortality) is referenced backwards in age. For instance, if the set back period is 2 years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

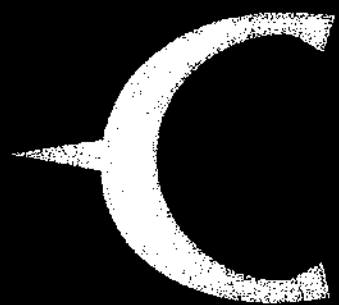
12. Unfunded Actuarial Liability (UAL)

The unfunded actuarial liability represents the difference between actuarial liability and valuation assets. This value is sometimes referred to as "unfunded actuarial accrued liability".

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).

EXHIBIT 5



**Federated City Employees'
Retirement System**

**June 30, 2011
Actuarial Valuation**

Produced by Cheiron

November 2011



Classic Values, Innovative Advice

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Classic Values, Innovative Advice

LETTER OF TRANSMITTAL

November 29, 2011

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, California 95112

Dear Members of the Board:

The purpose of this report is to present the June 30, 2011 actuarial valuation of the City of San Jose Federated City Employees' Retirement System ("System"). This report is for the use of the Retirement Board and its auditors in preparing financial reports in accordance with applicable laws and accounting requirements. Any other user of this report is not an intended user and is considered a third party.

The table below presents the key results of the 2011 valuation compared to the 2010 valuation.

| Summary of Key Valuation Results | | |
|---------------------------------------|------------------|------------------|
| | 6/30/2011 | 6/30/2010 |
| Discount Rate | 7.50% | 7.95% |
| Actuarial Liability (AL) | \$ 2,770,227 | \$ 2,510,358 |
| Actuarial Value of Assets (AVA) | 1,788,660 | 1,729,413 |
| Unfunded Actuarial Liability (UAL) | \$ 981,567 | \$ 780,945 |
| Funding Ratio - AVA | 65% | 69% |
| Market Value of Assets (MVA) | \$ 1,760,617 | \$ 1,512,802 |
| Funding Ratio - MVA | 64% | 60% |
| Fiscal Year Ending | 6/30/2013 | 6/30/2012 |
| Member Contribution Rate | 5.74% | 4.68% |
| City Contribution Rate | | |
| Normal Cost Rate | 18.08% | 12.76% |
| UAL Rate | 26.37% | 15.58% |
| Total City Rate | 44.45% | 28.34% |
| Total Contribution Rate | 50.19% | 33.02% |
| Total Contribution Amount | | |
| -if paid at the beginning of the year | \$ 102,972 | \$ 86,888 |
| -if paid at the end of the year | \$ 110,694 | \$ 93,795 |

Amounts in thousands



At its October 2011 meeting, the Board adopted a number of assumption changes based on recommendations from our experience study report. In particular, the Board reduced its investment return assumption from the 7.95% that was used in the prior valuation and the 7.75% that had been previously adopted for this valuation to 7.50%. The wage growth assumption was also reduced from 3.90% in the prior valuation to 3.25% in this valuation. Administrative expenses and the Supplemental Retiree Benefit Reserve (SRBR), which had been implicitly valued as part of the investment return assumption, are now explicitly valued as an addition to normal cost (0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR). The changes in assumptions are summarized in Appendix B of this report, and more detail is provided in our experience study report.

During the year, there were also very significant changes due to the experience of the System, including a 14% reduction in the number of active members and a 24% reduction in the expected payroll. The investment return for the year was nearly 19%, but due to asset smoothing, prior investment losses are still being phased in and as a result the return on the actuarial value of assets was only 5.5%.

- *Unfunded Actuarial Liability (UAL)/Surplus:* The UAL increased by approximately \$200 million primarily due to the assumption changes (\$188 million).
- *Funding Ratio:* The ratio of the actuarial value of assets to actuarial liabilities declined since the last valuation from 69% to 65% due to the assumption changes. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to actuarial liabilities increased from 60% to 64% even with the impact of the assumption changes.
- *Member Contribution Rate:* The member contribution rate is a proportion (3/11^{ths}) of the service normal cost rate. The Member contribution rate increased from 4.68% to 4.82% due to demographic experience and from 4.82% to 5.74% due to the changes in assumptions.
- *City Contributions:* City contributions are a proportion (8/11^{ths}) of the service normal cost rate plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll increased significantly from 28.34% of payroll to 44.45% of payroll. However, the decrease in payroll exaggerates the increased cost to the City. The beginning of year contribution amount increased from \$87 million to \$103 million due primarily to the assumption changes. Based on the prior valuation, the contribution amount had been expected to increase to \$105 million without all of the assumption changes.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2011 valuation results can be found in our report which follows.

Board of Administration
November 29, 2011
Page iii

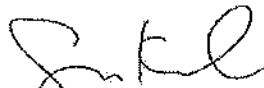
In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information.

We hereby certify that, to the best of our knowledge, this report and its contents, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and accurate and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

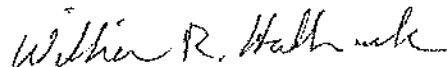
This actuarial valuation report was prepared solely for the System for the purposes described herein, except that the plan auditor may rely on this report solely for the purpose of completing an audit related to the matters herein. This actuarial valuation report is not intended to benefit any third party, and Cheiron assumes no duty or liability to any such party.

Finally, it's important to note that this valuation, which was prepared using census data and financial information as of June 30, 2011, does not reflect any subsequent changes in the membership profile and the investment markets.

Sincerely,
Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA
Principal Consulting Actuary



William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

The primary purpose of this actuarial valuation is to report, as of the valuation date, on the following:

- The financial condition of the Federated City Employees' Retirement System,
- Past and expected trends in the financial condition of the System,
- The Employer's contribution rate for the Fiscal Year Ending June 30, 2013, and
- Information required by the Governmental Accounting Standards Board (GASB).

In this Section, we present a summary of the principal valuation results. This includes the basis upon which the June 30, 2011 valuation was completed and an examination of the current financial condition of the System. In addition, we present a review of the key historical trends followed by the projected financial outlook for the System.

A. Valuation Basis

The System's funding policy sets City contributions equal to the sum of:

- A portion (8/11th) of the Service Normal Rate (Regular Current Service Rate).
- The Reciprocity Rate, which is the prefunding of the liability for reciprocal benefits with certain other California public pension plans.
- The Deficiency Rate, which is the amortization of the funding deficiency.
- The Golden Handshake Rate, which is the cost for funding the additional benefits granted in the past to certain retiring employees.

The unfunded actuarial liability as of June 30, 2009 (including the Golden Handshake) is amortized over 30 years from that date, and any subsequent gains or losses or assumption changes are amortized as part of the Deficiency Rate over 20 years from the valuation in which they are first recognized.

Member contributions equal 3/11th of the Service Normal Rate.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

B. Current Financial Condition

On the following pages, we summarize the key results of the June 30, 2011 valuation and how they compare to the results from the June 30, 2010 valuation.

1. Membership:

As shown in Table I-1 below, total membership in Federated declined slightly from 2010 to 2011, but the changes between categories of membership were significant. Active membership decreased 14.2%, terminated vested membership increased 18.7%, and retiree membership (including beneficiaries) increased 10.2%. Total payroll decreased by 23.9%, and the average pay per active member decreased by 11.2%.

| Table I-1 | | | |
|-------------------------------|----------------|----------------|----------|
| Total Membership | | | |
| Item | June 30, 2011 | June 30, 2010 | % Change |
| Active Counts | 3,274 | 3,818 | (14.2%) |
| Terminated Vesteds | 869 | 732 | 18.7% |
| Retirees | 2,769 | 2,472 | 12.0% |
| Beneficiaries | 449 | 428 | 4.9% |
| Disabled | 210 | 211 | (0.5%) |
| Total City Members | 7,571 | 7,661 | (1.2%) |
| Active Member Payroll | \$ 228,936,398 | \$ 300,811,165 | (23.9%) |
| Average Pay per Active Member | 69,926 | 78,788 | (11.2%) |

2. Assets and Liabilities:

Table I-2 on the following page presents a comparison between the June 30, 2011 and June 30, 2010 assets, liabilities, UAL, and funding ratios.

The key results shown in Table I-2 indicate that the total actuarial liability increased 10.4% and the market value of assets increased by 16.4%. The System employs an asset smoothing method which dampens investment market volatility. For this year the smoothed value of assets (called the actuarial value of assets) increased by 3.4%. The ratio of the actuarial value of assets to the market value of assets decreased from 114% to 102%, indicating that the deferred losses are now only slightly greater than the deferred gains. Finally, the UAL increased from \$780.9 million to \$981.6 million, resulting in a decrease in the funding ratio from 68.9% to 64.6%. Based on the market value of assets, the funding ratio increased from 60.3% to 63.6%.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION I
BOARD SUMMARY**

| Table I-2 | | | |
|---------------------------------|---------------|---------------|----------|
| Assets & Liabilities | | | |
| Item (EAN) | June 30, 2011 | June 30, 2010 | % Change |
| Actives | \$ 878,864 | \$ 1,005,660 | (12.6%) |
| Terminated Vesteds | 111,225 | 85,904 | 29.5% |
| Retirees | 1,570,604 | 1,271,308 | 23.5% |
| Beneficiaries | 93,751 | 81,931 | 14.4% |
| Disabled | 72,674 | 65,554 | 10.9% |
| SRBR Balance | 43,109 | 0 | |
| Total Actuarial Liability | 2,770,227 | 2,510,358 | 10.4% |
| Market Value Assets | \$ 1,760,617 | \$ 1,512,802 | 16.4% |
| Actuarial Value Assets | \$ 1,788,660 | \$ 1,729,413 | 3.4% |
| Unfunded Actuarial Liability | \$ 981,567 | \$ 780,944 | 25.7% |
| Funding Ratio - Market Value | 63.6% | 60.3% | 3.3% |
| Funding Ratio - Actuarial Value | 64.6% | 68.9% | (4.3%) |

Amounts in thousands

3. Contributions:

Table I-3 shows sources for the change in the net contribution rates and City contribution amount from the rates and amount calculated in the prior report. The increase in the Member contribution rate is primarily due to the assumption changes. The increase in the City's contribution rate is also primarily due to the assumption changes, but is further exaggerated by the decreased payroll over which the UAL is spread. The City's contribution amount would have actually been lower than the prior valuation except for the assumption changes.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

| Table I-3 Contribution Reconciliation | | | | | |
|---|--------|--------|-------------|---------|------------------|
| Item | Member | Normal | City UAL | Total | Total City \$ |
| 1. FYE 2012 Contribution Rate | 4.68% | 12.76% | 15.58% | 28.34% | \$ 86.9 |
| 2. Plan Experience | | | | | |
| a) Change due to investment loss | 0.00% | 0.00% | 2.69% | 2.69% | 6.2 |
| b) Change due to demographic experience | 0.14% | 0.42% | (2.79%) | (2.37%) | (5.5) |
| c) Change due to aggregate payroll decreasing | 0.00% | 0.00% | 4.16% | 4.16% | (11.6) |
| 3. Assumption Changes | | | | | |
| a) Change due to demographic assumption changes | 0.57% | 1.45% | 2.09% | 3.54% | 8.2 |
| b) Change due to explicit expense assumption | 0.19% | 0.51% | 0.00% | 0.51% | 1.2 |
| c) Change due to explicit SRBR assumption | 0.00% | 2.57% | 0.00% | 2.57% | 6.0 |
| d) Change due to economic assumption changes | 0.16% | 0.37% | 4.64% | 5.01% | 11.6 |
| 4. FYE 2013 Contribution Rate | 5.74% | 18.08% | 26.37% | 44.45% | \$ 103.0 |

In Section IV of this report, we provide more detail on the development of this contribution rate.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

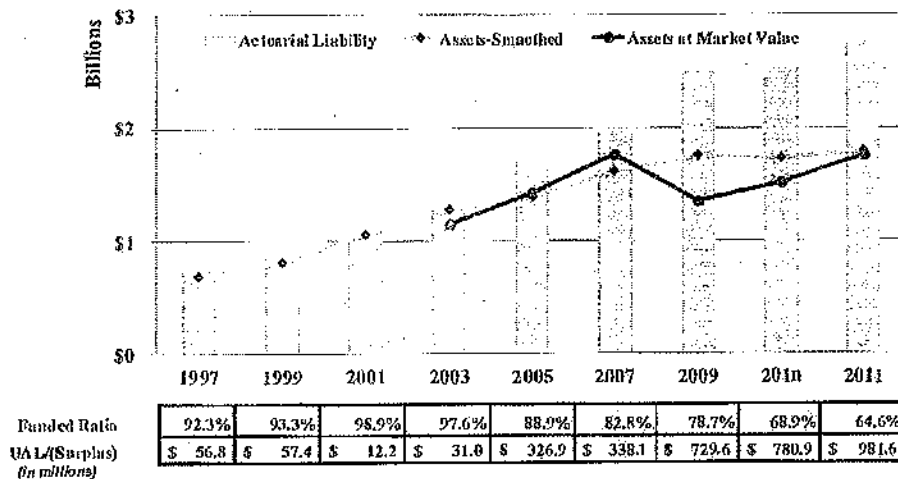
C. Historical Trends

Despite the fact that most of the attention given to the valuation is with respect to the most recently computed unfunded actuarial liability, funding ratio, and the System's contribution rates, it is important to remember that each valuation is merely a snapshot of the long-term progress of a pension fund. It is more important to judge a current year's valuation result relative to historical trends, as well as trends expected into the future. In the following charts, we present the historical trends based on prior actuarial valuations. Please note that prior to June 30, 2009, valuations were performed every other year. Beginning June 30, 2009, valuations are performed every year.

In the chart below, we present the historical trends for assets (both market and smoothed) versus actuarial liabilities, and also show the progress of the funding ratios since 1997.

Federated Assets and Liabilities 1997-2011

The City of San Jose Federated Employees' Retirement System



* Market Value of Assets prior to 2003 were not reported separately for the Retirement Benefits

The chart above indicates that from 1997 to 2001, the System's funding ratio improved, but was still in deficit status. Then, from 2001 to 2011 (with the exception of 2007), the funding ratio steadily declined. The decline is due primarily to investment experience.

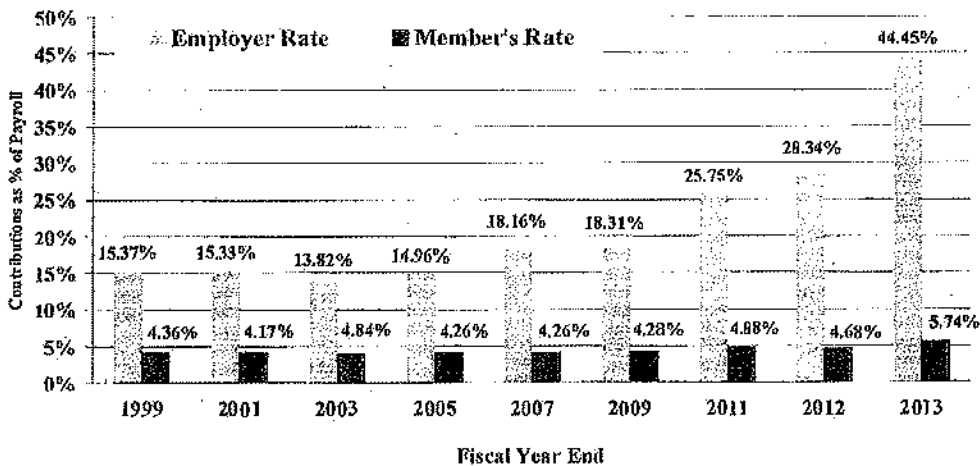
FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

In the chart below, we present the historical trends for the System's contribution rates since the Fiscal Year Ending June 30, 1999. All information shown prior to the Fiscal Year Ending June 30, 2012 was calculated by the prior actuary. Also, please note that the Fiscal Year Ending 2011 rates shown do not reflect the phase-in of contribution rates that was adopted for Members. The phased-in rate was 4.54%.

Employer and Member Contribution Rates 1999-2013

The City of San Jose Federated Employees' Retirement System



The key information in this chart is the increase in the Employer contribution rate since 2003. The increase scheduled for the Fiscal Year Ending in 2013 is primarily due to the assumption changes and the reduction in payroll.

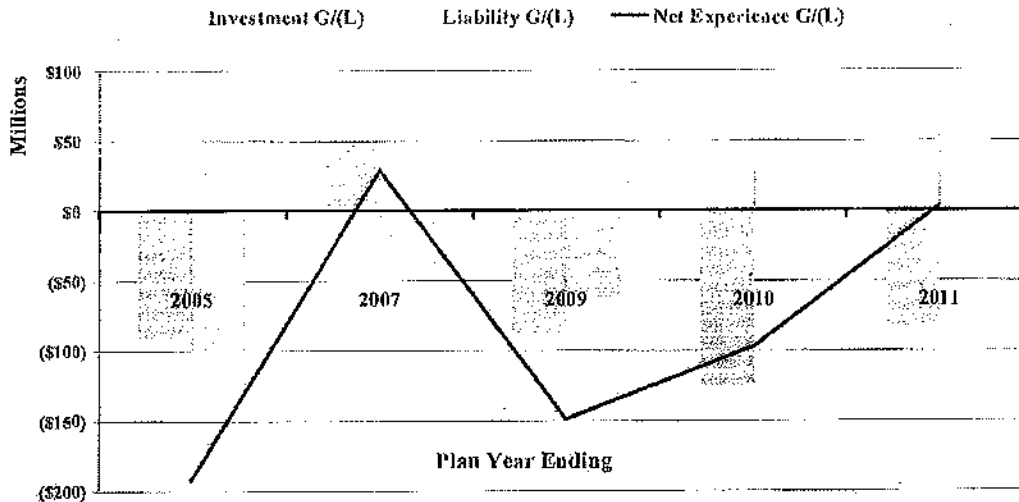
The following chart represents the pattern of the System's actuarial gains and losses, broken into the investment and liability components. The chart does not include any changes in the System's assets and liabilities attributable to changes to methods, procedures or assumptions.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

SJFCERS Historical Gain/(Loss) 2005-2011

The City of San Jose Federated Employees' Retirement System



The key insights from this chart are:

- Investment losses (gold bars) in 2005 are partially offset by investment gains from 2006 and 2007. From 2008 to 2011, there were additional investment losses. Since the actuarial value of assets only recognizes a portion of the recent market losses, additional investment losses on the actuarial value of assets are expected over the next two years followed by investment gains as the most recent market returns are fully recognized.
- On the liability side, three of the four valuations showed actuarial losses with 2010 and 2011 as the only exceptions. The actuarial gains in 2010 and 2011 are primarily due to actual salaries being less than expected. We expect the new demographic assumptions adopted with this valuation to more accurately reflect future demographic experience resulting in a balance between future gains and future losses.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

D. Projected Financial Trends

Our analysis of projected financial trends is an important part of this valuation. In this Section, we present our assessment of the implications of the June 30, 2011 valuation results on the future outlook for the System in terms of benefit security (assets over liabilities) and the expected cost progression.

In the charts that follow, we project assets and liabilities, the pay down of UAL, and the Employer contributions as a percent of payroll on two different bases:

- 1) Assuming 7.5% return for 2011-12 and each and every year that follows, and
- 2) Assuming returns shown in the table below. These are rates of return that vary each year but over the projection period equals on average the assumed 7.5% return. We do this in order to illustrate the impact of volatility because the System's returns will never be level each and every year.

| | | | | | | | | | | |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| FYE | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
| Return | 20.0% | 8.0% | 3.0% | 20.0% | (4.0%) | 18.0% | 13.0% | 9.0% | (7.0%) | 16.0% |
| FYE | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 |
| Return | 9.0% | (8.0%) | 8.0% | 13.0% | 16.0% | (8.0%) | (16.0%) | 30.0% | 25.0% | (1.0%) |

Please note that the investment returns shown above were selected solely to illustrate the impact of investment volatility on the pattern of funded status and employer contribution rates. They are not intended to be predictive of actual future contribution rates or funded status or even to represent a realistic pattern of investment returns.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

Projection Set 1: Assets and Liabilities

The chart below shows asset measures (green and gold lines) compared to liabilities (gray bars). At the top of each chart is the progression of funding ratios. The key insight from this chart is the steady projected improvement in funded ratios in the first chart, and how varying investment returns can impact the progression of funding ratios.

Chart 1: Projection of Assets and Liabilities, 7.5% return each year

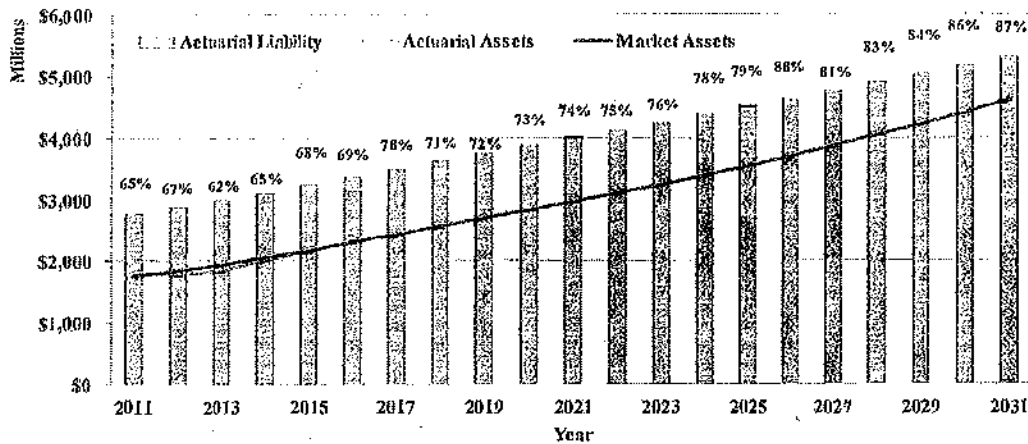
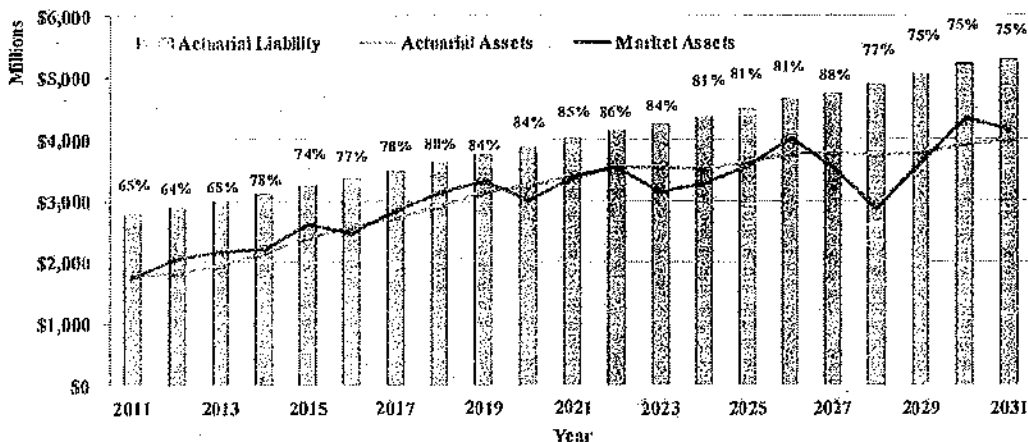


Chart 2: Projection of Assets and Liabilities, varying returns averaging 7.5% over time



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

Projection Set 2: Projected Employer Contribution Rate

As shown in Chart 1 below, employer contribution rates are expected to increase over the next two years as the 2008-09 investment losses are fully recognized, and then decline as the subsequent investment gains are realized. These contribution rates are significantly greater than those projected in the prior valuation (red line). However, much of the increase is due to the reduction in payroll. As shown in Chart 2 below, the projected amount of the contribution is less than what was projected in the prior valuation. Varying investment returns, as shown in Charts 3 and 4, can significantly alter the projected contribution rates and amounts.

Chart 1: 7.5% return each year – Percentage of Pay

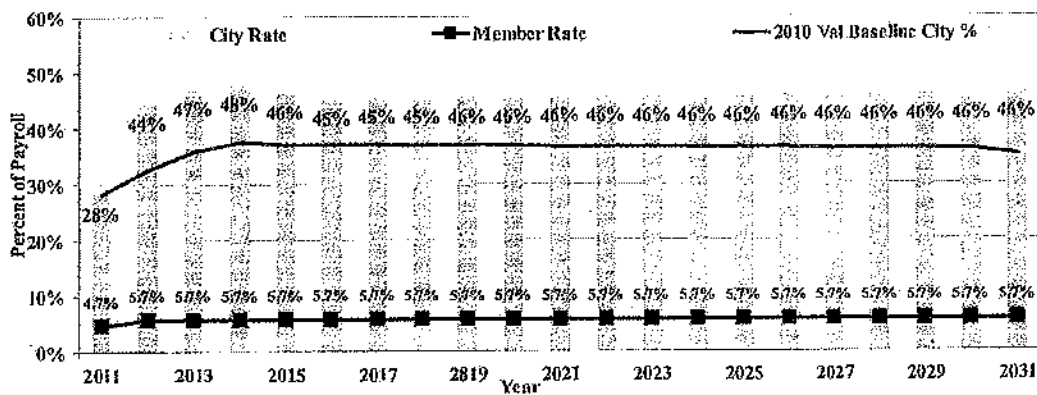
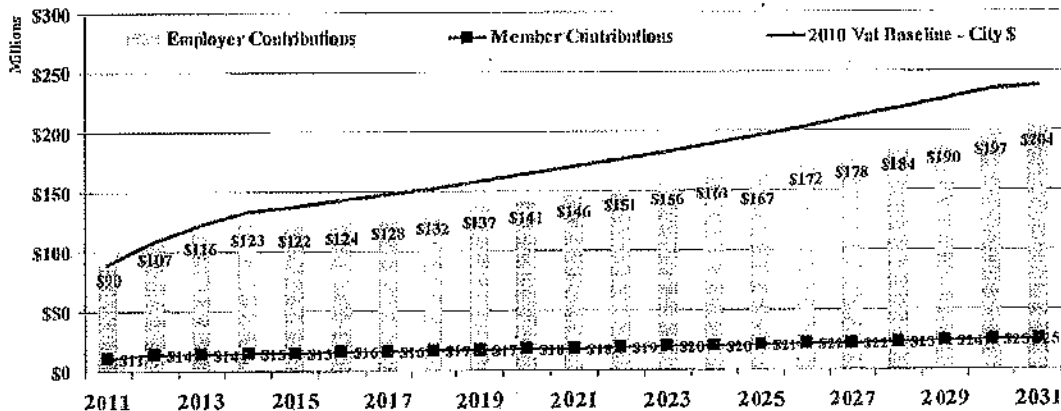


Chart 2: 7.5% return each year – Dollar Contributions



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION I
BOARD SUMMARY

Chart 3: Varying returns averaging 7.5% over time – Percentage of Pay

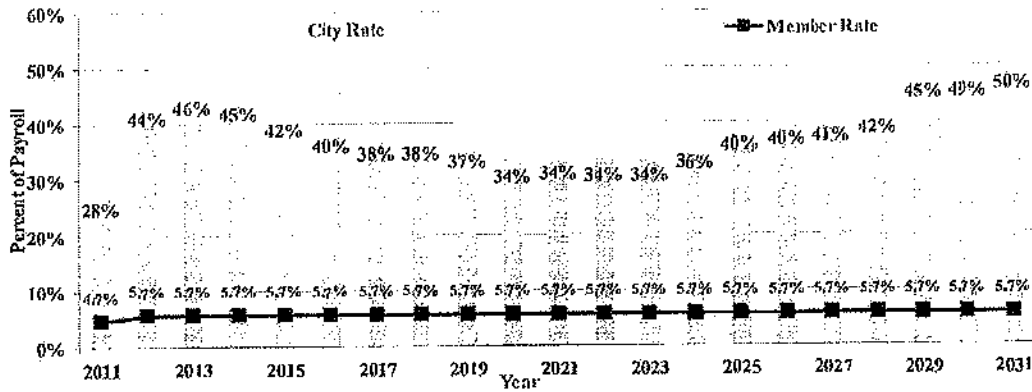
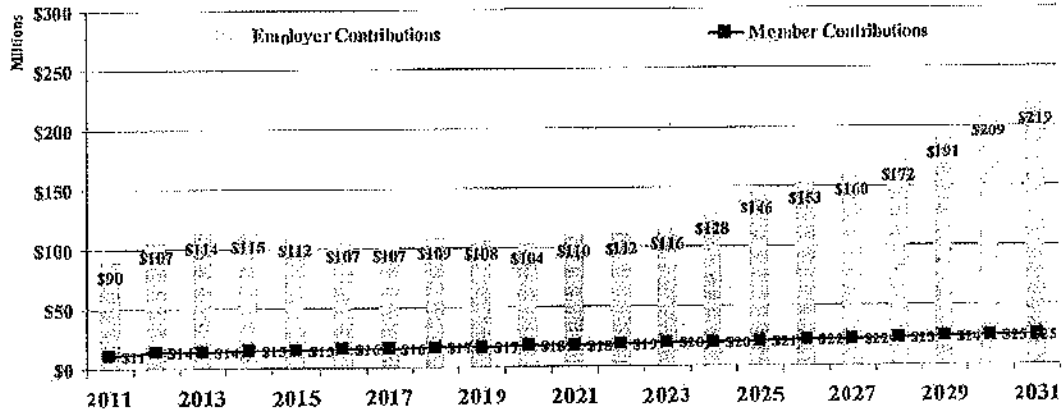


Chart 4: Varying returns averaging 7.5% over time – Dollar Contributions



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION II
ASSETS

The System uses and discloses two different asset measurements which are presented in this section of the report: market value and actuarial value of assets. The market value represents the value of the assets if they were liquidated on the valuation date. The actuarial value of assets is a value that attempts to smooth annual investment return performance over multiple years to reduce the impact of short-term investment volatility on employer contribution rates.

On the following pages we present detailed information on the System's assets:

- A. Statement of cash flows during the year,
- B. Development of the actuarial value of assets, and
- C. Discussion of investment performance for the year.

A. Cash Flows

Table II-1 shows sources for the change in the market value of assets.

| Table II-1 Change in Market Value of Assets | | | | | |
|--|--------------|---------------------------------|------------------|-----------------------------------|--|
| | Basic* | June 30, 2011 Cost of Living | Total Retirement | June 30, 2010 Total Retirement | |
| Market Value, Beginning of Year | \$ 1,108,322 | \$ 404,480 | \$ 1,512,802 | \$ 1,356,638 | |
| Contributions | | | | | |
| Member | 21,513 | 3,089 | 24,602 | 13,396 | |
| City | 42,180 | 17,000 | 59,180 | 54,566 | |
| Total | \$ 63,693 | \$ 20,089 | \$ 83,782 | \$ 67,962 | |
| Net Investment Earnings** | \$ 213,159 | \$ 71,153 | \$ 284,312 | \$ 195,114 | |
| Benefit Payments | \$ 93,689 | \$ 26,589 | \$ 120,278 | \$ 106,912 | |
| Market Value, End of Year | \$ 1,291,485 | \$ 469,133 | \$ 1,760,618 | \$ 1,512,802 | |

* Includes SKDR of \$43,109 and \$28,331 as of End of Year and Beginning of Year respectively

** Gross investment earnings less investment and administrative expenses

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION II
ASSETS**

Table II-2 shows the development of excess earnings.

| Table II-2 Development of Excess Earnings as of June 30, 2011 | | | | | |
|--|-------------------------|-----------|--------------|-------|-----------|
| | Retirement Fund Reserve | | | | |
| | Employee | SRBR | General | Total | |
| 1. Total Earnings | | | | \$ | 213,159 |
| 2. Balance, July 1, 2010 | \$ 201,166 | \$ 28,331 | \$ 878,824 | \$ | 1,108,322 |
| 3. Net Cashflow | \$ (13,907) | \$ 0 | \$ (16,089) | \$ | (29,996) |
| 4. Crediting Rate | 3.00% | 7.95% | 7.95% | | |
| 5. Primary Interest Crediting | \$ 5,562 | \$ 2,252 | \$ 80,084 | \$ | 87,899 |
| 6. Balance, June 30, 2011 | \$ 192,822 | \$ 30,583 | \$ 942,820 | \$ | 1,166,225 |
| 7. Excess Earnings | | \$ 12,526 | \$ 112,734 | \$ | 125,260 |
| 8. Balance, July 1, 2011 | \$ 192,822 | \$ 43,109 | \$ 1,055,554 | \$ | 1,291,485 |

Amounts in thousands

B. Actuarial Value of Assets

To determine on-going funding requirements, most pension funds utilize an actuarial value of assets that differs from the market value of assets. The actuarial value of assets is based on averaging or smoothing year-to-year market value returns for purposes of reducing the resulting volatility on contributions.

The actuarial value is calculated by recognizing 20% of each of the prior four years of actual investment experience relative to the expected return on the actuarial asset value (7.95% for 2010-2011, 7.75% for 2009-2010, 8.25% for prior years). The expected return on the actuarial value of assets is determined using the Fund's actual cash flows and the actuarial rate of interest. The balance of the actual investment experience is recognized in a similar fashion in future years. (See Appendix B for further explanation of the asset valuation method).

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION II
ASSETS

| Table II-3 Development of Actuarial Value of Assets | | | |
|--|--------------|---------------------------------|------------------|
| | Basic | June 30, 2011 Cost of Living | Total Retirement |
| Market Value of Assets | \$ 1,291,485 | \$ 469,133 | \$ 1,760,617 |
| Gains/(Losses) | | | |
| Current Year | 125,205 | 38,797 | 164,003 |
| Prior Year | 72,529 | 18,926 | 91,456 |
| 2nd Prior Year | (343,206) | (89,559) | (432,764) |
| 3rd Prior Year | (162,624) | (42,436) | (205,061) |
| Deferred Gains/(Losses) | | | |
| Current Year (80% deferred) | 100,164 | 31,038 | 131,202 |
| Prior Year (60% deferred) | 43,518 | 11,356 | 54,873 |
| 2nd Prior Year (40% deferred) | (137,282) | (35,823) | (173,106) |
| 3rd Prior Year (20% deferred) | (32,525) | (8,487) | (41,012) |
| Total | \$ (26,125) | \$ (1,917) | \$ (28,042) |
| Actuarial Value of Assets | \$ 1,317,610 | \$ 471,050 | \$ 1,788,660 |

Amounts in thousands

C. Investment Performance

The market value of assets internal rate of return, net of investment and administrative expenses, was 18.8% for the year ending June 30, 2011. This is compared to an assumed return of 7.95%.

On an actuarial value of assets basis, the return for the year ending June 30, 2011 was 5.5%. The difference is largely due to the recognition of deferred losses from prior years while 80% of the gain for 2010 is deferred to future years. This return produced an overall investment loss of \$82.2 million for the year ending June 30, 2011.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION III
LIABILITIES

In this section, we present detailed information on liabilities for the System, including:

- Disclosure of liabilities at June 30, 2010 and June 30, 2011, and
- Statement of changes in the unfunded actuarial liabilities during the year.

A. Disclosure

Two types of liabilities are calculated and presented in this report. Each type is distinguished by the purpose for which the figures are ultimately used.

- **Present Value of All Future Benefits:** Used for measuring all future obligations, represents the expected amount of money needed today to fully pay off all benefits both earned as of the valuation date and those to be earned in the future by current plan participants, under the current Plan provisions.
- **Actuarial Liability - Entry Age Normal (EAN):** Used for determining employer contributions and GASB accounting disclosures. This liability is calculated taking the present value of all future benefits and subtracting the present value of future member contributions and future employer normal costs as determined under the EAN actuarial funding method. It represents the expected amount of money needed today to pay for benefits attributed to service prior to the valuation date.

Table III-1 and Table III-2 on the following page disclose these liabilities for the current and prior year valuations. By subtracting the actuarial value of assets from the actuarial liability, the net surplus or an unfunded actuarial liability (UAL) is determined.

Table III-3 shows the Entry Age Normal Cost as a percentage of pay. The Entry Age Normal Cost represents the expected amount of money needed to fund the benefits attributed to the next year of service under the EAN actuarial funding method. Administrative expenses and the SRBR, which had been implicitly valued as part of the investment return assumption, are now explicitly valued as an addition to normal cost (0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR).

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION III
LIABILITIES**

| Table III-1 Present Value of Future Benefits | | | | | |
|---|---------------------|-------------------|---------------------|------------------|------------------|
| | June 30, 2011 | | | June 30, 2010 | |
| | Basic | Cost of Living | Total Retirement | Total Retirement | |
| Actives | | | | | |
| Retirement | \$ 800,561 | \$ 282,729 | \$ 1,083,290 | \$ | 1,189,282 |
| Termination | 61,551 | 20,803 | 82,354 | | 97,699 |
| Death | 17,878 | 5,904 | 23,782 | | 34,360 |
| Disability | 30,142 | 10,576 | 40,718 | | 66,216 |
| Total Actives | \$ 910,132 | \$ 320,012 | \$ 1,230,144 | \$ | 1,387,557 |
| Retirees | 1,198,186 | 372,418 | 1,570,604 | | 1,271,308 |
| Beneficiaries | 73,694 | 20,057 | 93,751 | | 81,931 |
| Disabled | 55,785 | 16,889 | 72,674 | | 65,554 |
| Deferred Vested | 81,988 | 29,237 | 111,225 | | 85,904 |
| SRBR Balance | 43,109 | 0 | 43,109 | | 0 |
| Total | \$ 2,362,894 | \$ 758,613 | \$ 3,121,507 | \$ | 2,892,255 |

Amounts in thousands

| Table III-2 Actuarial Liability | | | | | |
|------------------------------------|---------------------|-------------------|---------------------|------------------|------------------|
| | June 30, 2011 | | | June 30, 2010 | |
| | Basic | Cost of Living | Total Retirement | Total Retirement | |
| Actives | | | | | |
| Retirement | \$ 602,387 | \$ 212,919 | \$ 815,306 | \$ | 906,339 |
| Termination | 21,786 | 9,217 | 31,003 | | 42,318 |
| Death | 10,476 | 3,319 | 13,795 | | 20,440 |
| Disability | 14,206 | 4,554 | 18,760 | | 36,562 |
| Total Actives | \$ 648,855 | \$ 230,009 | \$ 878,864 | \$ | 1,005,660 |
| Retirees | 1,198,186 | 372,418 | 1,570,604 | | 1,271,308 |
| Beneficiaries | 73,694 | 20,057 | 93,751 | | 81,931 |
| Disabled | 55,785 | 16,889 | 72,674 | | 65,554 |
| Deferred Vested | 81,988 | 29,237 | 111,225 | | 85,904 |
| SRBR Balance | 43,109 | 0 | 43,109 | | 0 |
| Total | \$ 2,101,617 | \$ 668,610 | \$ 2,770,227 | \$ | 2,510,358 |

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

**SECTION III
LIABILITIES**

| Table III-3 Normal Cost | | | | |
|----------------------------|---------------|----------------|---------------|---------------|
| | June 30, 2011 | | | June 30, 2010 |
| | Basic | Cost of Living | Total | Total |
| Retirement | 11.79% | 4.11% | 15.90% | 13.08% |
| Termination | 1.99% | 0.56% | 2.55% | 2.06% |
| Death | 0.45% | 0.16% | 0.61% | 0.66% |
| Disability | 0.93% | 0.35% | 1.28% | 1.38% |
| Reciprocity | 0.15% | 0.06% | 0.21% | 0.27% |
| Sub-Total | 15.31% | 5.24% | 20.55% | 17.44% |
| Admin Expense | 0.70% | 0.00% | 0.70% | 0.00% |
| SRBR | 2.57% | 0.00% | 2.57% | 0.00% |
| Total | 18.58% | 5.24% | 23.82% | 17.44% |

B. Changes in Unfunded Actuarial Liabilities

The UAL of any retirement plan is expected to change at each subsequent valuation for a variety of reasons. In each valuation, we report on those elements of change in the UAL that have particular significance or could potentially affect the long-term financial outlook of a retirement plan. Below we present key changes in liabilities since the last valuation.

| Table III-4 Development of 2011 Experience Gain/(Loss) | |
|---|-------------|
| Item | Amount |
| 1. Unfunded Actuarial Liability at June 30, 2010 | \$ 780,945 |
| 2. Expected unfunded accrued liability payment | 42,490 |
| 3. Interest accrued | 58,566 |
| 4. Increase due to change in assumptions | 187,548 |
| 5. Expected Unfunded Actuarial Liability at June 30, 2011 (1-2+3+4) | \$ 984,569 |
| 6. Actual Unfunded Liability at June 30, 2011 | \$ 981,567 |
| 7. Difference: (5 - 6) | 3,002 |
| a. Portion of (6) due to investment gain or (loss) | \$ (82,166) |
| b. Portion of (6) due to salary decreases | 127,350 |
| c. Portion of (6) due to earlier than expected retirements | (34,778) |
| d. Portion of (6) due to mortality experience less than expected | (10,568) |
| e. Portion of (6) due to other experience | 3,164 |
| f. Total | \$ 3,002 |

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

In the process of evaluating the financial condition of any pension plan, the actuary analyzes the assets and liabilities to determine what level (if any) of contributions are needed to achieve and maintain an appropriate funded status of a plan. Typically, the actuarial process will use an actuarial funding method that will result in a pattern of contributions that are both stable and predictable.

The actuarial funding methodology employed is the Entry Age Normal actuarial funding method. Under this method, there are two components to the total contribution: the normal cost, and the unfunded actuarial liability contribution. The normal cost rate is determined by taking the value, as of entry age into the plan, of each member's projected future benefits. This value is then divided by the value, also at entry age, of the each member's expected future salary. The normal cost rate is multiplied by current salary to determine each member's normal cost. Administrative expenses and the expected net transfer to the SRBR are added to the entry age normal cost. Finally, the normal cost is reduced by the member contribution to produce the employer normal cost. The difference between the actuarial liability and the actuarial value of assets is the unfunded actuarial liability. The UAL is made up of the unamortized UAL as of June 30, 2010 plus the impact of the 2011 experience, assumption changes and the 2010 UAL payment that is made on July 1, 2011.

Table IV-1 provides the payment schedules to amortize the unfunded liability as of June 30, 2009 over 30 years, and any additional actuarial gains/(losses), assumption or method changes after June 30, 2009 over 20 years.

Table IV-2 shows how the Employer's contribution rate for FYE 2013 is developed. The methodology and assumptions used are in full compliance with the parameters set in GASB Statement No. 25 for purposes of determining the annual required contribution (ARC).

Table IV-3 shows the Employer' contribution dollar amounts for FYE 2013 assuming contributions are made at the beginning of the fiscal year. To the extent contributions are made after the beginning of the fiscal year, the amounts should be increased at an annual rate of 7.50 percent.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION IV
CONTRIBUTIONS

| Table IV-1 UAL Amortization | | | | |
|---------------------------------|------------------------|---------------------|----------------------|---------------|
| | Outstanding Balance | Remaining Period | Payment \$ Amount | % of Pay |
| Basic Retirement Benefit | | | | |
| Golden Handshake | \$ 16,525 | 28 | \$ 1,038 | 0.45% |
| 2009 UAL | 592,115 | 28 | 37,183 | 16.05% |
| 2010 (Gain) or Loss | 47,696 | 19 | 3,787 | 1.63% |
| 2010 Assumption Change | (38,315) | 19 | (3,042) | (1.3%) |
| 2011 (Gain) or Loss | 9,372 | 20 | 719 | 0.31% |
| 2011 Assumption Changes | 117,018 | 20 | 8,982 | 3.88% |
| 7/1/2011 Payment | <u>39,596</u> | | <u>0</u> | 0.00% |
| Total | \$ 784,007 | | \$ 48,667 | 21.01% |
| Cost of Living Benefit | | | | |
| Golden Handshake | \$ 4,018 | 28 | \$ 252 | 0.11% |
| 2009 UAL | 145,001 | 28 | 9,106 | 3.93% |
| 2010 (Gain) or Loss | 3,476 | 19 | 276 | 0.12% |
| 2010 Assumption Change | (21,270) | 19 | (1,689) | (0.7%) |
| 2011 (Gain) or Loss | (12,373) | 20 | (950) | (0.4%) |
| 2011 Assumption Changes | 70,530 | 20 | 5,414 | 2.34% |
| 7/1/2011 Payment | <u>8,178</u> | | <u>0</u> | 0.00% |
| Total | \$ 197,560 | | \$ 12,409 | 5.36% |
| Total | \$ 981,567 | | \$ 61,076 | 26.36% |

Amounts in thousands

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION IV
CONTRIBUTIONS**

| Table IV-2 Contribution Rates | | | | | | |
|----------------------------------|---------------------|-------|--------|---------------------|-------|--------|
| | Fiscal Year 2011-12 | | | Fiscal Year 2010-11 | | |
| | Basic | COLA | Total | Basic | COLA | Total |
| Member Contribution Rate | 4.32% | 1.42% | 5.74% | 3.56% | 1.12% | 4.68% |
| City Service Normal Rate | 14.11% | 3.76% | 17.87% | 9.51% | 2.98% | 12.49% |
| City Reciprocity Normal Rate | 0.15% | 0.06% | 0.21% | 0.20% | 0.07% | 0.27% |
| Total City Normal Rate | 14.26% | 3.82% | 18.08% | 9.70% | 3.05% | 12.76% |
| City Deficiency Rate | 20.56% | 5.25% | 25.81% | 12.59% | 2.59% | 15.18% |
| City Golden Handshake Rate | 0.45% | 0.11% | 0.56% | 0.32% | 0.08% | 0.40% |
| Total City UAL Rate | 21.01% | 5.36% | 26.37% | 12.91% | 2.67% | 15.58% |
| City ARC Rate | 35.27% | 9.18% | 44.45% | 22.62% | 5.72% | 28.34% |

| Table IV-3 City Contribution Amounts (BOY) | | | | | | |
|---|--------------|-----------|------------|--------------|-----------|-----------|
| | July 1, 2011 | | | July 1, 2010 | | |
| | Basic | COLA | Total | Basic | COLA | Total |
| City Service Normal Cost | \$ 32,687 | \$ 8,710 | \$ 41,397 | \$ 29,148 | \$ 9,146 | \$ 38,294 |
| City Reciprocity Normal Cost | 347 | 139 | 486 | 608 | 212 | 828 |
| Total City Normal Cost | \$ 33,034 | \$ 8,849 | \$ 41,884 | \$ 29,756 | \$ 9,358 | \$ 39,114 |
| City Deficiency Cost | \$ 47,629 | \$ 12,162 | \$ 59,791 | \$ 38,616 | \$ 7,940 | \$ 46,555 |
| City Golden Handshake Cost | 1,042 | 255 | 1,297 | 980 | 238 | 1,218 |
| Total City UAL Cost | \$ 48,671 | \$ 12,417 | \$ 61,088 | \$ 39,596 | \$ 8,178 | \$ 47,774 |
| City Annual Required Contribution | \$ 81,705 | \$ 21,266 | \$ 102,972 | \$ 69,352 | \$ 17,536 | \$ 86,888 |

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Statement No. 25 of the Governmental Accounting Standards Board (GASB) establishes standards for accounting and financial reporting of pension information by public employee retirement systems.

The GASB No. 25 disclosure compares the actuarial liability computed for funding purposes to the actuarial value of assets to determine a funded ratio. The actuarial liability is determined assuming that members continue to terminate employment, retire, etc., in accordance with the actuarial assumptions. Liabilities are discounted at the assumed valuation interest rate of 7.5% per annum as of June 30, 2010 and 7.95% per annum as of June 30, 2011.

GASB Statement No. 25 requires the actuarial liability be compared with the actuarial value of assets for funding purposes. The relevant amounts as of June 30, 2010 and June 30, 2011 are presented in Table V-1.

| Table V-1 Federated City Employees' Retirement System | | | |
|--|----------------|------------------|----------------|
| Item | June 30, 2011 | June 30, 2010 | % Change |
| GASB No. 25 Basis | | | |
| 1. Actuarial Liabilities | | | |
| a. Members Currently Receiving Payments | \$ 1,780,139 | \$ 1,418,794 | 25.5% |
| b. Vested Terminated and Inactive Members | 111,225 | 85,904 | 29.5% |
| c. Active Members | <u>878,863</u> | <u>1,005,660</u> | <u>(12.6%)</u> |
| d. Total Actuarial Liability | \$ 2,770,227 | \$ 2,510,358 | 10.4% |
| 2. Actuarial Value of Assets | \$ 1,788,660 | \$ 1,729,413 | 3.4% |
| 3. Unfunded Actuarial Liability | \$ 981,567 | \$ 780,945 | 25.7% |
| 4. Ratio of Actuarial Value of Assets to Actuarial Liability (2)/(1)(d) | 64.57% | 68.89% | (4.3%) |

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

Tables V-2 through V-5 are exhibits for use in the System's Comprehensive Annual Financial Report (CAFR). The Government Finance Officers Association (GFOA) recommends showing at least 6 years of experience in each of these exhibits. Table V-2 shows the Notes to Required Supplementary Information, Table V-3 presents an analysis of financial experience for the valuation year, Table V-4 presents the Solvency Test which shows the portion of actuarial liability covered by assets, and Table V-5 presents the Schedule of Funding Progress.

| Table V-2 Federated City Employees' Retirement System NOTES TO REQUIRED SUPPLEMENTARY INFORMATION | |
|--|---|
| The information presented in the required supplementary schedules to the Financial Section of the CAFR was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows. | |
| Valuation date | June 30, 2011 |
| Actuarial funding method | Entry Age Normal |
| Amortization method | Level percent of pay, closed, layered |
| Equivalent single amortization period | 25.2 Years |
| Asset valuation method | 5 year smoothing of return over or under expected returns |
| Actuarial assumptions: | |
| Investment rate of return | 7.50% |
| Projected salary increases due to wage inflation | 3.25% |
| Cost-of-living adjustments** | 3.0% per year |
| The actuarial assumptions used have been recommended by the actuary and adopted by the Federated Board in October 2011 based on the most recent review of Federated experience. | |
| The rate of employer contributions to Federated is composed of the normal cost, reciprocity normal cost, amortization of the unfunded actuarial liability and the golden handshake rate. The normal cost is a level percent of payroll cost which, along with the member contributions, will pay for projected benefits at retirement for the average plan participant. The actuarial liability is that portion of the present value of projected benefits that will not be paid by future employer normal costs or member contributions. The difference between this liability and the funds accumulated as of the same date is the unfunded actuarial liability. | |

* Additional merit salary increases of 0.25% to 4.50% based on a participant's years of service are also assumed. These increases are not used in the amortization of the UAL.

** Cost-of-living adjustments are fixed at 3% by the plan provisions and do not fluctuate with actual inflation.

**FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION**

**SECTION V
ACCOUNTING STATEMENT INFORMATION**

| Table V-3 City of San Jose Federated City Employees' Retirement System | |
|--|--|
| ANALYSIS OF FINANCIAL EXPERIENCE Gain (or Loss) in Actuarial Liability During Years Ended June 30 Resulting from Differences Between Assumed Experience and Actual Experience | |
| Type of Activity | Gain (or Loss) for Year Ending June 30, 2011 |
| Investment Income | \$ (82,166) |
| Combined Liability Experience | <u>83,403</u> |
| Gain (or Loss) During Year from Financial Experience | \$ 1,237 |
| Non-Recurring Gain (or Loss) Items | <u>(187,548)</u> |
| Composite Gain (or Loss) During Year | \$ (186,311) |

Amounts in thousands

| Table V-4 City of San Jose Federated City Employees' Retirement System GASB SOLVENCY TEST | | | | | | | | |
|---|-----------------------------------|---|--|----------------------|---|------|-----|--|
| Actuarial Liabilities For | | | | | | | | |
| Valuation Date June 30, * | (A) | (B) | (C) | Reported Assets** | Portion of Actuarial Liabilities Covered by Reported Assets | | | |
| | Active Member Contributants | Retirees, Beneficiaries and Other Inactive | Remaining Active Members' Liabilities | | (A) | (B) | (C) | |
| 2011 | \$ 234,574 | \$ 1,848,254 | \$ 687,400 | \$ 1,788,660 | 100% | 84% | 0% | |
| 2010 | 242,944 | 1,504,698 | 762,716 | 1,729,413 | 100% | 99% | 0% | |
| 2009 | 228,967 | 1,393,114 | 864,074 | 1,756,558 | 100% | 100% | 16% | |
| 2007 | 214,527 | 1,003,001 | 743,415 | 1,622,851 | 100% | 100% | 55% | |
| 2005 | 230,027 | 824,043 | 657,300 | 1,384,454 | 100% | 100% | 50% | |
| 2003 | 224,875 | 635,092 | 451,724 | 1,280,719 | 100% | 100% | 93% | |
| 2001 | 210,377 | 529,853 | 332,103 | 1,060,144 | 100% | 100% | 96% | |

* Results prior to 6/30/2010 calculated by prior actuary

Amounts in thousands

** Actuarial Value of Assets

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

SECTION V
ACCOUNTING STATEMENT INFORMATION

| Table V-5 Schedule of Funding Progress | | | | | | |
|---|------------------------------|-----------------------------|----------------|-----------------|--------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Liability (AL) | Unfunded AL | Funded Ratio | Covered Payroll | Unfunded AL as a % of Covered Payroll |
| June 30, 2011 | \$ 1,788,660 | \$ 2,770,227 | \$ 981,567 | 65% | \$ 228,936 | 429% |
| June 30, 2010 | 1,729,413 | 2,510,358 | 780,945 | 69% | 300,811 | 260% |
| June 30, 2009 | 1,756,558 | 2,486,155 | 729,597 | 71% | 323,020 | 226% |
| June 30, 2007 | 1,622,851 | 1,960,943 | 338,092 | 83% | 291,405 | 116% |
| June 30, 2005 | 1,384,454 | 1,711,370 | 326,916 | 81% | 286,446 | 114% |
| June 30, 2003 | 1,280,719 | 1,311,691 | 30,972 | 98% | 292,961 | 11% |
| June 30, 2001 | 1,060,144 | 1,072,333 | 12,189 | 99% | 252,696 | 5% |

Note: Results prior to 6/30/2010 were calculated by the prior actuary

Amounts in thousands

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-1 San Jose Federated City Employees' Retirement System Active Member Data | | | |
|---|----------------|----------------|----------|
| | June 30, 2011 | June 30, 2010 | % Change |
| Total | | | |
| Count | 3,274 | 3,818 | (14.2%) |
| Average Current Age | 45.9 | 45.9 | 0.0% |
| Average Service | 12.3 | 12.1 | 1.7% |
| Annual Expected Pensionable Earnings | \$ 228,936,398 | \$ 300,811,165 | (23.9%) |
| Average Expected Pensionable Earnings | \$ 69,926 | \$ 78,788 | (11.2%) |

| Table A-2 San Jose Federated City Employees' Retirement System Non-Active Member Data | | | | | | |
|---|---------------|---------------|----------|---------------|---------------|----------|
| | Count | | | Average Age | | |
| | June 30, 2011 | June 30, 2010 | % Change | June 30, 2011 | June 30, 2010 | % Change |
| Total | | | | | | |
| Retired & Disabled | 2,979 | 2,683 | 11.0% | 67.9 | 68.2 | (0.4%) |
| Beneficiaries | 449 | 428 | 4.9% | 73.0 | 72.7 | 0.4% |
| Payee Total | 3,428 | 3,111 | 10.2% | 68.5 | 68.9 | (0.6%) |
| Inactives | 869 | 734 | 18.4% | 45.6 | 45.6 | 0.0% |

| Table A-3 San Jose Federated City Employees' Retirement System Non-Active Member Data | | | | | | |
|---|-----------------------|----------------|----------|-------------------------|---------------|----------|
| | Total Annual Benefit* | | | Average Annual Benefit* | | |
| | June 30, 2011 | June 30, 2010 | % Change | June 30, 2011 | June 30, 2010 | % Change |
| Total | | | | | | |
| Retired & Disabled | \$ 121,366,908 | \$ 104,841,445 | 15.8% | \$ 40,741 | \$ 39,076 | 4.3% |
| Beneficiaries | 8,501,980 | 7,818,669 | 8.7% | 18,935 | 18,268 | 3.7% |
| Payee Total | \$ 129,868,888 | \$ 112,660,114 | 15.3% | \$ 37,885 | \$ 36,213 | 4.6% |
| Inactives** | \$ 11,556,900 | \$ 9,611,703 | 20.2% | \$ 13,299 | \$ 13,095 | 1.6% |

* Benefits provided in June 30 valuation data

** For Inactives, benefit is calculated based on the data assumptions and methods outlined in Appendix A.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-4
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2011

| Age | Years of Service | | | | | | | | | | Total |
|-------------|------------------|--------|--------|----------|----------|----------|----------|----------|----------|-----------|-------|
| | Under 7 | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 and up | |
| Under 25 | 4 | 8 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 12 |
| 25 to 29 | 22 | 133 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 164 |
| 30 to 34 | 17 | 152 | 94 | 57 | 0 | 0 | 0 | 0 | 0 | 0 | 320 |
| 35 to 39 | 11 | 98 | 100 | 192 | 16 | 0 | 0 | 0 | 0 | 0 | 417 |
| 40 to 44 | 2 | 89 | 89 | 199 | 65 | 38 | 2 | 0 | 0 | 0 | 489 |
| 45 to 49 | 8 | 69 | 69 | 191 | 75 | 149 | 47 | 0 | 0 | 0 | 608 |
| 50 to 54 | 8 | 80 | 47 | 149 | 61 | 184 | 107 | 1 | 0 | 0 | 637 |
| 55 to 59 | 4 | 50 | 50 | 122 | 38 | 71 | 20 | 3 | 0 | 0 | 358 |
| 60 to 64 | 2 | 26 | 35 | 78 | 21 | 27 | 4 | 2 | 1 | 0 | 196 |
| 65 to 69 | 0 | 9 | 6 | 27 | 6 | 5 | 3 | 0 | 0 | 0 | 56 |
| 70 and up | 0 | 1 | 1 | 9 | 4 | 0 | 2 | 0 | 0 | 0 | 17 |
| Total Count | 83 | 715 | 500 | 1,024 | 286 | 474 | 185 | 6 | 1 | 0 | 3,274 |

Table A-5
San Jose Federated City Employees' Retirement System
Distribution of Active Members as of June 30, 2011

| Age | Average Expected Salary | | | | | | | | | | Total |
|-------------|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|------------|-----------|-----------|
| | Under 1 | 1 to 4 | 5 to 9 | 10 to 14 | 15 to 19 | 20 to 24 | 25 to 29 | 30 to 34 | 35 to 39 | 40 and up | |
| Under 25 | \$ 12,939 | \$ 41,223 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 0 | \$ 31,795 |
| 25 to 29 | 23,181 | 51,950 | 54,947 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 48,255 |
| 30 to 34 | 34,650 | 57,587 | 63,729 | 63,536 | 0 | 0 | 0 | 0 | 0 | 0 | 80,311 |
| 35 to 39 | 24,231 | 60,133 | 66,771 | 70,254 | 79,047 | 0 | 0 | 0 | 0 | 0 | 66,044 |
| 40 to 44 | 33,571 | 64,389 | 73,172 | 70,402 | 75,326 | 75,835 | 70,145 | 0 | 0 | 0 | 70,347 |
| 45 to 49 | 37,377 | 65,739 | 74,381 | 75,360 | 79,934 | 76,727 | 71,099 | 0 | 0 | 0 | 74,220 |
| 50 to 54 | 36,971 | 68,631 | 75,108 | 70,221 | 77,300 | 78,317 | 78,106 | 64,726 | 0 | 0 | 74,316 |
| 55 to 59 | 31,116 | 69,421 | 79,309 | 74,994 | 77,423 | 81,220 | 79,985 | 56,818 | 0 | 0 | 75,947 |
| 60 to 64 | 21,420 | 73,813 | 70,684 | 77,380 | 77,622 | 76,958 | 77,436 | 75,099 | 107,722 | 0 | 75,241 |
| 65 to 69 | 0 | 65,396 | 70,155 | 74,392 | 72,633 | 77,919 | 70,385 | 0 | 0 | 0 | 72,485 |
| 70 and up | 0 | 95,955 | 114,733 | 76,511 | 55,620 | 0 | 71,002 | 0 | 0 | 0 | 74,340 |
| Avg. Salary | \$ 29,085 | \$ 61,137 | \$ 70,573 | \$ 72,153 | \$ 77,321 | \$ 77,971 | \$ 76,294 | \$ 64,230 | \$ 107,722 | \$ 0 | \$ 69,926 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Table A-6
San Jose Federated City Employees' Retirement System
Retirees and Disabled by Attained Age and Benefit Effective Date
As of June 30, 2011

| Benefit Effective | Under 50 | 50 to 54 | 55 to 59 | 60 to 64 | 65 to 69 | 70 to 74 | 75 to 79 | 80 to 84 | 85 to 89 | 90 and up | Total |
|-------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|-----------|-------|
| Pre-1993 | 1 | 1 | 5 | 9 | 14 | 88 | 156 | 169 | 144 | 62 | 649 |
| 1993 | 0 | 1 | 1 | 0 | 7 | 32 | 8 | 4 | 3 | 0 | 56 |
| 1994 | 1 | 1 | 2 | 1 | 0 | 15 | 12 | 8 | 1 | 1 | 42 |
| 1995 | 2 | 0 | 1 | 1 | 1 | 22 | 10 | 1 | 1 | 0 | 39 |
| 1996 | 1 | 8 | 0 | 1 | 16 | 35 | 13 | 2 | 2 | 0 | 70 |
| 1997 | 1 | 0 | 3 | 2 | 26 | 16 | 15 | 1 | 0 | 0 | 64 |
| 1998 | 0 | 0 | 2 | 5 | 42 | 16 | 11 | 6 | 0 | 1 | 83 |
| 1999 | 0 | 0 | 1 | 8 | 32 | 22 | 5 | 2 | 0 | 0 | 90 |
| 2000 | 0 | 1 | 2 | 6 | 45 | 26 | 6 | 1 | 0 | 0 | 87 |
| 2001 | 0 | 2 | 1 | 38 | 62 | 35 | 9 | 4 | 1 | 0 | 152 |
| 2002 | 1 | 1 | 3 | 58 | 29 | 23 | 5 | 2 | 0 | 0 | 122 |
| 2003 | 3 | 1 | 12 | 75 | 28 | 19 | 5 | 0 | 0 | 0 | 143 |
| 2004 | 0 | 1 | 12 | 84 | 43 | 26 | 8 | 2 | 0 | 0 | 176 |
| 2005 | 5 | 4 | 18 | 75 | 37 | 19 | 2 | 0 | 0 | 0 | 160 |
| 2006 | 1 | 4 | 35 | 72 | 21 | 15 | 1 | 3 | 0 | 0 | 158 |
| 2007 | 3 | 6 | 64 | 46 | 39 | 10 | 4 | 0 | 0 | 0 | 172 |
| 2008 | 3 | 10 | 66 | 38 | 23 | 6 | 0 | 0 | 0 | 0 | 146 |
| 2009 | 0 | 18 | 101 | 55 | 31 | 6 | 1 | 0 | 0 | 0 | 218 |
| 2010 | 2 | 33 | 159 | 102 | 42 | 10 | 1 | 1 | 0 | 0 | 350 |
| 2011 | 1 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Total | 25 | 84 | 494 | 677 | 564 | 441 | 272 | 206 | 152 | 64 | 2,979 |

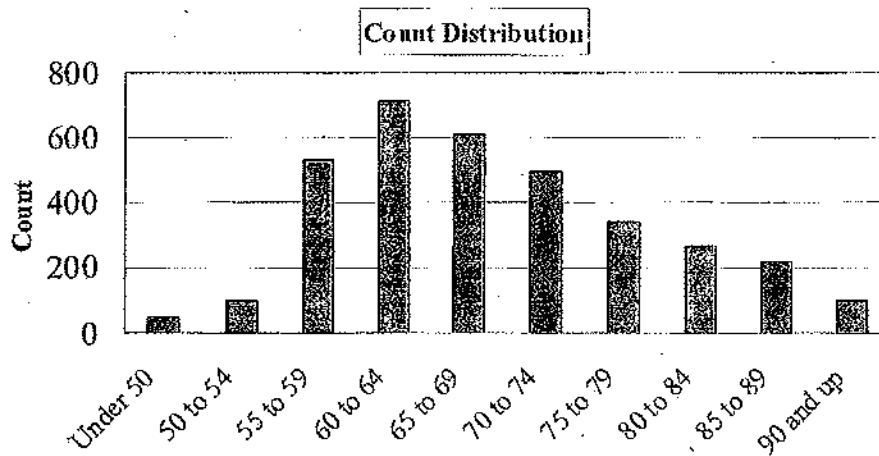
Average Age at Retirement/Disability 52.6
Average Current Age 67.9
Average Annual Pension \$ 40,741

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-7 San Jose Federated City Employees' Retirement System Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2011 | |
|---|-------|
| Age | Count |
| Under 50 | 48 |
| 50 to 54 | 100 |
| 55 to 59 | 530 |
| 60 to 64 | 714 |
| 65 to 69 | 609 |
| 70 to 74 | 495 |
| 75 to 79 | 343 |
| 80 to 84 | 268 |
| 85 to 89 | 220 |
| 90 and up | 101 |
| Total | 3,428 |

Chart A-1

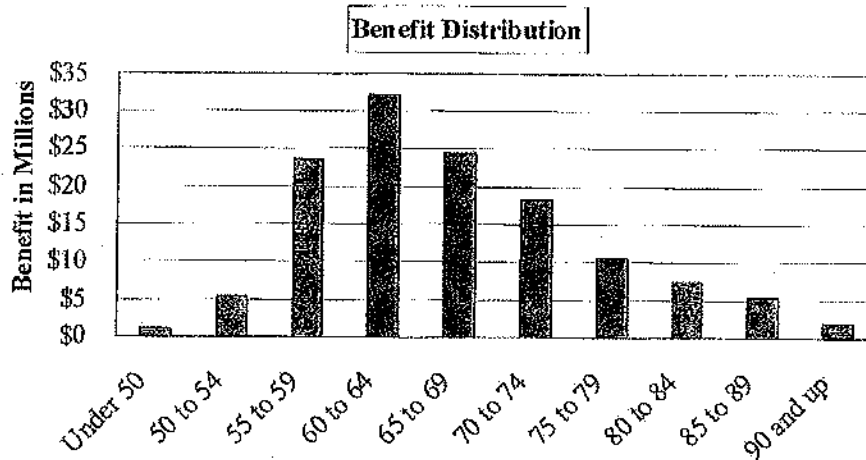


FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

| Table A-8 San Jose Federated City Employees' Retirement System Distribution of Retirees, Disabled Members, and Beneficiaries as of June 30, 2011 | |
|---|----------------|
| Age | Annual Benefit |
| Under 50 | \$ 1,043,249 |
| 50 to 54 | 5,252,461 |
| 55 to 59 | 23,569,188 |
| 60 to 64 | 32,208,477 |
| 65 to 69 | 24,377,769 |
| 70 to 74 | 18,178,539 |
| 75 to 79 | 10,539,603 |
| 80 to 84 | 7,451,831 |
| 85 to 89 | 5,277,507 |
| 90 and up | 1,970,263 |
| Total | 129,868,888 |

Chart A-2



FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX A
MEMBERSHIP INFORMATION

Data Assumptions and Methods

In preparing our data, we relied without audit on information supplied by the Department of Retirement Services. This information includes, but is not limited to, plan provisions, employee data, and financial information. Our methodology for obtaining the data used for the valuation is based upon the following assumptions and practices:

- Records on the "Active" data file are considered to be Active if they do not have a reason for termination.
- Records on any of the data files are considered to be Inactive if they have a reason for termination of deferred vested or leave of absence/inactive.
- Records on the "Retiree" and "Beneficiary/QDRO" files are considered in pay status if they do not have a date of death, are not inactive and have not withdrawn from the plan.
- Service for actives that have no service amount is calculated to be the time from date of hire to the valuation date.
- Service for inactives that have no service amount is calculated to be the time from date of hire to date of termination.
- The most recent annual salary for actives is set to be "earnable income." If "earnable income" was not provided, then the most recent annual salary is calculated to be "compensation rate 2" multiplied by 26.
- The annual benefit for inactives is equal to 2.5% of final compensation per year of service, up to a maximum of 75% of final compensation. Members who terminated prior to June 30, 2001 have their final compensation adjusted for a three-year average rather than a 12-month average.
- We assume any member found in last year's "Retiree" file and not in this year's file has deceased without a beneficiary and should be removed from the valuation data.
- We assume all deceased members with payments continuing to a beneficiary have already been accounted for in the "Retiree" file.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

A. Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.5% net of investment.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Administrative Expenses

0.70% of payroll is added to the normal cost of the system for expected administrative expenses.

4. Future SRBR transfers

0.35% of the Market Value of Assets is added to the employer normal cost to estimate the average net transfer to the SRBR.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

5. Salary Increase Rate

Wage inflation component: 3.25%

In addition, the following merit component is added based on an individual member's years of service:

| Table B-1 Salary Merit Increases | |
|-------------------------------------|------------------|
| Years of Service | Merit/ Longevity |
| 0 | 4.50% |
| 1 | 3.50 |
| 2 | 2.50 |
| 3 | 1.85 |
| 4 | 1.40 |
| 5 | 1.15 |
| 6 | 0.95 |
| 7 | 0.75 |
| 8 | 0.60 |
| 9 | 0.50 |
| 10 | 0.45 |
| 11 | 0.40 |
| 12 | 0.35 |
| 13 | 0.30 |
| 14 | 0.25 |
| 15+ | 0.25 |

6. Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

| Table B-2 Percentage Married | |
|---------------------------------|------------|
| Gender | Percentage |
| Males | 80% |
| Females | 60% |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

7. Rates of Termination

Sample rates of termination are shown in the following Table B-3.

| Table B-3 Rates of Termination | | | |
|-----------------------------------|-----------------------|-------------------------|----------------------------------|
| Age | 0 Years of Service | 1-4 Years of Service | 5 or more Years of Service |
| 20 | 20% | 10.00% | 5.50% |
| 25 | 20 | 10.00 | 5.30 |
| 30 | 20 | 9.50 | 4.85 |
| 35 | 20 | 7.20 | 4.20 |
| 40 | 20 | 5.60 | 3.00 |
| 45 | 20 | 4.60 | 1.85 |
| 50 | 20 | 4.00 | 1.75 |
| 55 | 20 | 4.00 | 0.00 |
| 60 | 20 | 4.00 | 0.00 |
| 65 | 0 | 0.00 | 0.00 |

* Withdrawal/termination rates do not apply once a member is eligible for retirement

20% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

8. Rates of Refund

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

| Table B-4 Rates of Refund | |
|------------------------------|--------|
| Age | Refund |
| 20 | 40.0% |
| 25 | 30.0 |
| 30 | 25.0 |
| 35 | 20.0 |
| 40 | 15.0 |
| 45 | 10.0 |
| 50 | 4.0 |
| 55 | 0.0 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

9. Rates of Disability

Sample disability rates of active participants are provided in Table B-5.

| Table B-5 Rates of Disability at Selected Ages | |
|---|------------|
| Age | Disability |
| 20 | 0.030% |
| 25 | 0.033 |
| 30 | 0.056 |
| 35 | 0.098 |
| 40 | 0.162 |
| 45 | 0.232 |
| 50 | 0.302 |
| 55 | 0.376 |
| 60 | 0.455 |
| 65 | 0.504 |
| 70 | 0.000 |

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

10. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

| Table B-6 Rates of Mortality for Active and Retired Healthy Lives at Selected Ages | | |
|--|---------|---------|
| Age | Male | Female |
| 20 | 0.0237% | 0.0152% |
| 25 | 0.0297 | 0.0155 |
| 30 | 0.0365 | 0.0196 |
| 35 | 0.0585 | 0.0344 |
| 40 | 0.0881 | 0.0484 |
| 45 | 0.1100 | 0.0747 |
| 50 | 0.1460 | 0.1092 |
| 55 | 0.2154 | 0.1841 |
| 60 | 0.4140 | 0.3639 |
| 65 | 0.8104 | 0.7094 |
| 70 | 1.4464 | 1.2471 |
| 75 | 2.4223 | 2.0673 |
| 80 | 4.3489 | 3.3835 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

11. Rates of Mortality for Retired Disabled Lives

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

| Table B-7 Rates of Mortality for Disabled Lives at Selected Ages | | |
|--|--------|--------|
| Age | Male | Female |
| 20 | 0.664% | 0.478% |
| 25 | 0.719 | 0.492 |
| 30 | 0.790 | 0.512 |
| 35 | 0.984 | 0.548 |
| 40 | 1.666 | 0.674 |
| 45 | 1.646 | 0.985 |
| 50 | 1.632 | 1.245 |
| 55 | 1.936 | 1.580 |
| 60 | 2.293 | 1.628 |
| 65 | 3.174 | 1.969 |
| 70 | 3.870 | 3.019 |
| 75 | 6.001 | 3.915 |
| 80 | 8.388 | 5.555 |

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

12. Rates of Retirement

Rates of retirement are based on age according to the following Table B-8.

| Table B-8 Rates of Retirement by Age and Service | | |
|---|----------------------------------|--------------------------------|
| Age | Less than 30 Years of Service | 30 or more Years of Service |
| 50 | 0.0% | 60.0% |
| 51 | 0.0 | 60.0 |
| 52 | 0.0 | 60.0 |
| 53 | 0.0 | 60.0 |
| 54 | 0.0 | 60.0 |
| 55 | 17.5 | 50.0 |
| 56 | 8.5 | 50.0 |
| 57 | 8.5 | 50.0 |
| 58 | 8.5 | 50.0 |
| 59 | 9.5 | 50.0 |
| 60 | 9.5 | 50.0 |
| 61 | 16.0 | 50.0 |
| 62 | 16.0 | 50.0 |
| 63 | 16.0 | 50.0 |
| 64 | 16.0 | 50.0 |
| 65 | 25.0 | 60.0 |
| 66 | 25.0 | 60.0 |
| 67 | 25.0 | 60.0 |
| 68 | 25.0 | 60.0 |
| 69 | 25.0 | 60.0 |
| 70 & over | 100.0 | 100.0 |

13. Deferred Member Benefit

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

14. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

15. Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study that were adopted by the Board in October 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, reciprocal rate, and refund rate assumptions. For a complete description of these changes, please refer to the experience study report dated May 12, 2011.

FEDERATED CITY EMPLOYERS' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX B
ACTUARIAL ASSUMPTIONS AND METHODS

B. Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs and represents the target amount of assets the System should have as of the valuation date to fund the benefits as a level percentage of payroll.

2. Asset Valuation Method

For the purpose of determining the Employer's contribution, an actuarial value of assets is used. The asset smoothing method dampens the volatility in asset values that occur because of fluctuations in market conditions, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of pay over 20-year periods beginning with the valuation date in which they first arise.

4. Supplemental Retiree Benefit Reserve (SRBR)

Beginning with this valuation, the SRBR balance is added to the actuarial liability and the assets are included in the actuarial value of assets. In prior valuations, the SRBR balance was excluded from both the actuarial liability and the actuarial value of assets.

5. Contributions

At its November 2010 meeting, the Board adopted a policy setting the City's contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS

1. Membership Requirement

Participation in the Plan is immediate upon the first day of full-time employment.

2. Final Compensation

Members who separated from city service prior to June 30, 2001

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001

The highest average annual compensation earnable during any period of twelve consecutive months.

3. Credited Service

One year of service credit is given for 1,739 or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4. Member Contributions

Member

The amount needed to fund 3/11 of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

Employer

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5. Service Retirement

Eligibility

Age 55 with five years of service, or any age with 30 years of service.

Benefit – Member

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS

Benefit - Survivor

50% of the service retirement benefit paid to a qualified survivor.

6. **Service-Connected Disability Retirement**

Eligibility

No age or service requirement.

Benefit - Member

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

7. **Non-Service Connected Disability Retirement**

Eligibility

Five years of service.

Benefit - Member

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

Members who were hired on or after September 1, 1998:

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor

50% of the disability retirement benefit paid to a qualified survivor.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX C
SUMMARY OF PLAN PROVISIONS

8. Death While an Active Employee

Less than five Years of Service, or No Qualified Survivor

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more Years of Service

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9. Withdrawal Benefits

Less than five Years of Service

Lump sum benefit equal to the accumulated employee contributions with interest.

Five or more years of credited service

The amount of the service retirement benefit, payable at age 55.

10. Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12. Supplemental Retiree Benefit Reserve (SRBR)

Each year, 10% of Excess Earnings, if any, are transferred to the SRBR, and the SRBR balance is credited with interest equal to the actual rate of return up to the actuarially assumed investment return, but not less than 0%. The interest credited to the SRBR balance is distributed to retirees and beneficiaries along with any balance (before interest crediting) in excess of the minimum balance established by the Board (\$7,000 per retiree/beneficiary).

Note: The summary of major plan provisions is designed to outline principal plan benefits. If the Department of Retirement Services should find the plan summary not in accordance with the actual provisions, the actuary should immediately be alerted so the proper provisions are valued.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX D
GLOSSARY OF TERMS

1. Actuarial Liability

The Actuarial Liability is the difference between the present value of all future system benefits and the present value of total future normal costs. This is also referred to by some actuaries as the "accrued liability" or "actuarial liability."

2. Actuarial Assumptions

Estimates of future experience with respect to rates of mortality, disability, turnover, retirement rate or rates of investment income and salary increases. Actuarial assumptions (rates of mortality, disability, turnover and retirement) are generally based on past experience, often modified for projected changes in conditions. Economic assumptions (salary increases and investment income) consist of an underlying rate in an inflation-free environment plus a provision for a long-term average rate of inflation.

3. Accrued Service

Service credited under the System which was rendered before the date of the actuarial valuation.

4. Actuarial Equivalent

A single amount or series of amounts of equal actuarial value to another single amount or series of amounts, computed on the basis of appropriate actuarial assumptions.

5. Actuarial Funding Method

A mathematical budgeting procedure for allocating the dollar amount of the actuarial present value of a retirement system benefit between future normal cost and actuarial accrued liability. Sometimes referred to as the "actuarial funding method."

6. Actuarial Gain (Loss)

The difference between actual experience and actuarial assumption anticipated experience during the period between two actuarial valuation dates.

7. Actuarial Present Value

The amount of funds currently required to provide a payment or series of payments in the future. It is determined by discounting future payments at predetermined rates of interest, and by probabilities of payment.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
JUNE 30, 2011 ACTUARIAL VALUATION

APPENDIX D
GLOSSARY OF TERMS

8. Amortization

Paying off an interest-discounted amount with periodic payments of interest and principal—as opposed to paying off with a lump-sum payment.

9. Annual Required Contribution (ARC) under GASB 25

The Governmental Accounting Standards Board (GASB) Statement No. 25 defines the Plan Sponsor's "Annual Required Contribution" (ARC) that must be disclosed annually. The System Employer computed contribution rate for FYE 2013 meets the parameters of GASB 25.

10. Normal Cost

The actuarial present value of retirement system benefits allocated to the current year by the actuarial funding method.

11. Set back/Set forward

Set back is a period of years that a standard published table (i.e., mortality) is referenced backwards in age. For instance, if the set back period is two years and the participant's age is currently 40, then the table value for age 38 is used from the standard published table. It is the opposite for set forward. A system would use set backs or set forwards to compensate for mortality experience in their work force.

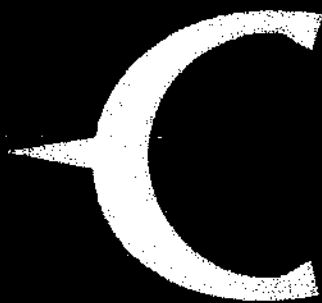
12. Unfunded Actuarial Liability (UAL)

The unfunded actuarial liability represents the difference between actuarial liability and valuation assets. This value is sometimes referred to as "unfunded actuarial accrued liability."

Most retirement systems have unfunded actuarial liabilities. They typically arise each time new benefits are added and each time experience losses are realized.

The existence of unfunded actuarial accrued liability is not in itself an indicator of poor funding. Also, unfunded actuarial liabilities do not represent a debt that is payable today. What is important is the ability of the plan sponsor to amortize the unfunded actuarial liability and the trend in its amount (after due allowance for devaluation of the dollar).

EXHIBIT 6



**City of San Jose Federated Retiree
Health Care Plan**

**June 30, 2010
Actuarial Valuation**

Produced by Cheiron

January 2011



Classic Values, Innovative Advice

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Classic Values, Innovative Advice

Via Email and U.S. Mail

January 7, 2011

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, CA 95112

Re: City of San Jose Federated Retiree Health Care Plan Valuation

Dear Members of the Board:

At your request, we performed the June 30, 2010 actuarial valuation of the City of San Jose Federated Retiree Health Care Plan. The valuation results with respect to Other Postemployment Benefits (OPEB), covering postretirement health and dental insurance benefits, are contained in this report. The prior valuation was performed by Gabriel, Roeder, Smith and Company.

Appendix A describes the Member Data, Assumptions, and Methods used in calculating the liabilities contained in the report. We relied, without audit, on information provided by the City. Appendix B contains a summary of the substantive plan provisions based on documentation provided by and discussions with City of San Jose's staff.

The results of this report depend on the future experience conforming to the actuarial assumptions used. The results will change to the extent that future experience differs from the assumptions. Actuarial computations are calculated based on our understanding of GASB 43/45 and are for purposes of fulfilling plan and employer financial accounting requirements. Determinations for purposes other than meeting plan or employer financial accounting requirements may be significantly different from the results in this report. This report also contains actuarial computations based on our understanding of the Plan's funding policy. We have not incorporated the impact of the Patient Protection and Affordable Care Act of 2010.

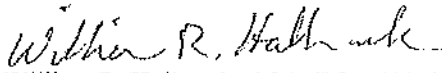
At its December 2010 meeting, the Board adopted a policy setting the Annual Required Contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. For example, based on this valuation report, the contribution required for the fiscal year ending June 30, 2012 is the greater of \$21,470,679 (if paid 7/1/2011) and 7.16% of actual payroll for the period from July 1, 2011 through June 30, 2012.

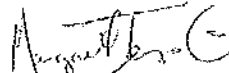
We hereby certify that, to the best of our knowledge, this report is complete and accurate and has been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the applicable Actuarial Standards of Practice as Promulgated by the Actuarial Standards Board. We are Members of the American Academy of Actuaries and, collectively, meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained in this report. This report does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.



Retirement Board of the Federated City
Employees' Retirement System
January 7, 2011
Page ii

Sincerely,
Cheiron


William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary


Margaret A. Tempkin, FSA, EA, MAAA
Consulting Actuary

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POST-EMPLOYMENT BENEFITS

INTRODUCTION

The Retirement Board of the Federated City Employees' Retirement System has engaged Cheiron to provide a valuation of the City of San Jose Federated Retiree Health Care Plan. The primary purpose of performing this actuarial valuation is to:

- Determine employee and City contribution rates for the Fiscal Year ending June 30, 2012,
- Determine the accounting and financial reporting items under GASB 43 and 45 for the Plan and the City of the retiree health and dental insurance benefits;
- Show sensitivities to changes in trends and assumptions; and
- Illustrate the long-term effect of the funding strategy on projected contribution requirements and GASB accounting and financial reporting for the Plan and the City.

Funding Policy

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method, but limiting the incremental increase to 0.75% for the members and City during the phase-in period. The unfunded liability as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution.

GASB's OPEB Requirements:

The Governmental Accounting Standards Board (GASB) has released Statement 43 regarding financial reporting for post-employment benefits plans other than pension plans and a companion Statement (number 45) regarding the employer accounting and financial reporting for these plans.

If an employer is not contributing the full ARC to the Plan, GASB requires the use of a discount rate that blends the expected return on plan assets (7.95%) with the expected return on employer assets (4.50%). For the 2010-11 fiscal year, the full ARC was 9.99% of pay, but under the phase-in, the City is only contributing 6.41% of pay, or 64% of the ARC. Consequently, following the method previously employed, we have calculated a blended discount rate of 6.71% for this valuation.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

VALUATION RESULTS

The table below presents the key results of the 2010 valuation.

| <p style="text-align: center;">Table 1 Summary of Key Valuation Results (in thousands)</p> | | | |
|--|------------------|------------|------------------|
| Valuation Date | 6/30/2010 | | 6/30/2009 |
| Discount Rate | 7.95% | 6.71% | 6.70% |
| Actuarial Liability (AL) | \$ 789,486 | \$ 926,371 | \$ 796,448 |
| Assets | 108,011 | 108,011 | 85,564 |
| Unfunded Actuarial Liability (UAL) | \$ 681,475 | \$ 818,360 | \$ 710,884 |
| Funding Ratio | 14% | 12% | 11% |
| Fiscal Year Ending | 6/30/2012 | | 6/30/2011 |
| Member Contribution Rate | 6.51% | | 5.76% |
| City Contribution Rate | 7.16% | | 6.41% |
| City Contribution Amount (beginning of year) | \$ 21,471 | | \$ 18,530 |
| Fiscal Year Ending | 6/30/2011 | | 6/30/2010 |
| City ARC | | | |
| -- if paid as a percent of pay | 15.86% | | 11.97% |
| -- if paid throughout the fiscal year | \$ 47,593 | | \$ 38,599 |

The remainder of this report provides additional detail on our analysis. First, we present the results of our baseline actuarial study and sensitivity analyses to both assumptions and benefits. We conclude with information to satisfy the GASB OPEB accounting and financial reporting requirements.

The fundamental principle underlying most actuarial methods, as well as the GASB accounting standards, is that the cost of a member's benefits should be recognized over the period in which benefits are earned, rather than the period of benefit distribution. The *normal cost* is the annual amount which would be sufficient to fund the plan benefits (net of retiree contributions) if it were paid from each employee's date of hire until termination or retirement. Under the method used in our analysis, the normal cost is determined as a percentage of pay. This means the underlying dollar amount is expected to increase each year as salary increases. The *actuarial liability* represents the portion of the value of the projected benefit at retirement that is allocated to service earned prior to the valuation date; that is, it represents the accumulation of past normal costs from date of hire until the valuation date. The *unfunded actuarial liability* represents the excess of the actuarial liability over plan assets. The *pay-as-you-go cost* represents the expected annual cost of health coverage less retiree contributions for current and future retirees based on the valuation assumptions. This figure can be significantly higher than the premiums because the premiums primarily reflect the cost of active, not retiree, coverage.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

VALUATION RESULTS

The development of the unfunded actuarial liability of the Plan is shown in Table 2 below for the current and prior year's valuations.

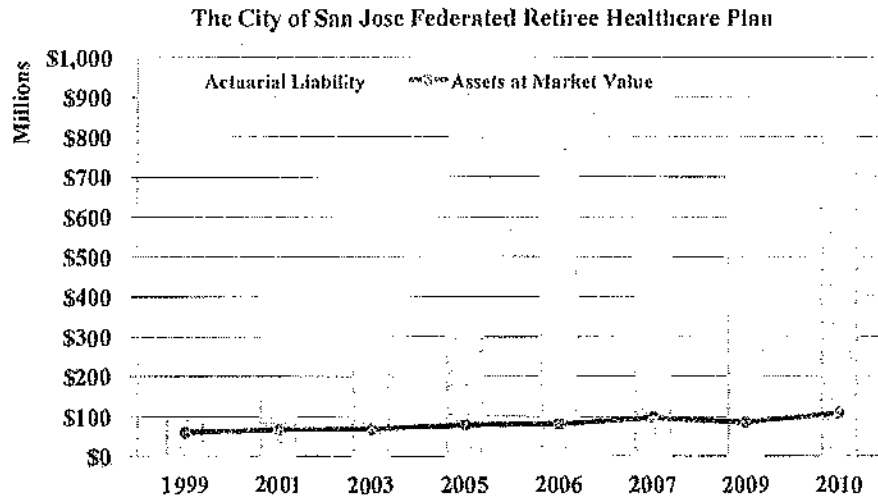
| Table 2 Unfunded Actuarial Liability | | | |
|---|----------------|-----------------|----------------|
| Discount Rate | 6/30/2010 | | 6/30/2009* |
| | 7.95% | 6.71% | 6.70% |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 423,351,320 | \$ 479,423,141 | \$ 389,613,882 |
| Term Vested Members | 30,982,620 | 35,860,649 | 31,753,307 |
| Active Employees | 472,715,983 | 613,293,522 | 552,819,323 |
| Total | \$ 927,049,923 | \$1,128,577,312 | \$ 974,186,512 |
| Present Value of Future Normal Costs | 137,563,578 | 202,206,450 | 177,738,237 |
| Actuarial Liability | \$ 789,486,345 | \$ 926,370,862 | \$ 796,448,275 |
| Assets | 108,010,981 | 108,010,981 | 85,564,000 |
| Unfunded Actuarial Liability | \$ 681,475,364 | \$ 818,359,881 | \$ 710,884,275 |

* Calculated by prior actuary.

The chart below shows the historical trend of assets and liabilities for the City of San Jose Federated Retiree Healthcare Plan. While the Plan has been partially funded for many years, the first valuation complying with GASB 43 and 45 was performed in 2006 which resulted in a significantly lower discount rate and significantly higher liabilities. The funding policy, however, was not changed until 2009.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

VALUATION RESULTS



* 2006 was the first GASB 43/45 valuation.

| | 1999 | 2001 | 2003 | 2005 | 2006 | 2007 | 2009 | 2010 |
|--------------------------------|---------|---------|----------|----------|----------|----------|----------|----------|
| Discount Rate | 8.25% | 8.25% | 8.25% | 8.25% | 5.60% | 6.60% | 6.70% | 6.71% |
| Funded Ratio | 66.2% | 48.2% | 34.2% | 24.6% | 11.6% | 15.7% | 10.7% | 11.7% |
| UAL/(Surplus) (in millions) | \$ 31.0 | \$ 72.4 | \$ 145.0 | \$ 235.7 | \$ 621.7 | \$ 520.1 | \$ 710.9 | \$ 818.4 |

The Annual Required Contribution (ARC) under GASB 43 and 45 consists of two parts: (1) the *normal cost*, which represents the annual cost attributable to service earned in a given year, and (2) the amortization of the unfunded actuarial liability (UAL). Under the current funding method, the City pays for the implicit subsidy through the payment of active employee health premiums and also makes additional contributions to a 401(h) account.

In Table 3 below, the ARC for the fiscal year ending June 30, 2011 is developed using a blended discount rate of 6.71%. The prior year's calculation is shown for comparison.

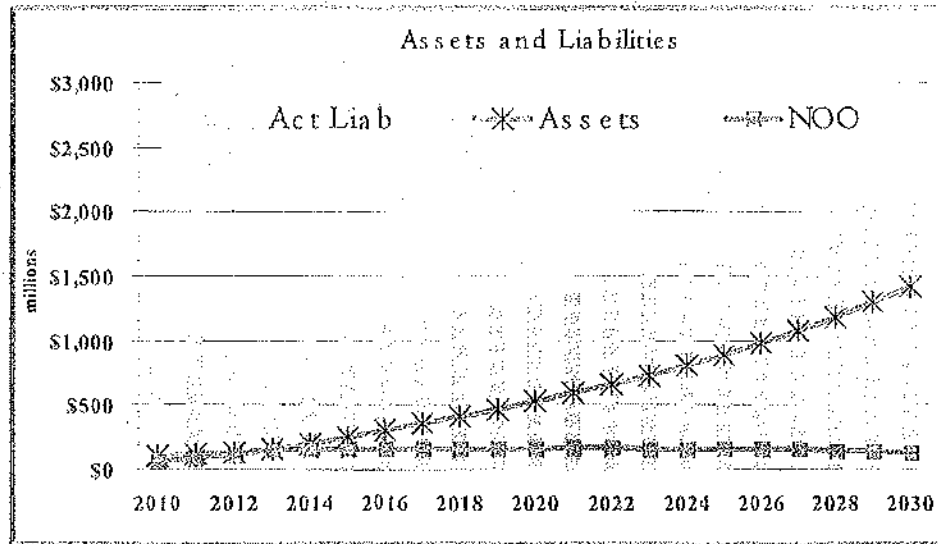
| Table 3 GASB ARC | | |
|--|----------------------|----------------------|
| Fiscal Year Ending | 6/30/2011 | 6/30/2010* |
| Discount Rate | 6.71% | 6.70% |
| Total Normal Cost | \$ 22,195,786 | \$ 20,568,707 |
| Less Employee Contribution towards Normal Cost | <u>17,283,978</u> | <u>16,663,945</u> |
| Employer Normal Cost | 4,911,808 | 3,904,762 |
| UAL Amortization | <u>42,681,581</u> | <u>34,694,460</u> |
| Total ARC | \$ 47,593,389 | \$ 38,599,222 |

*Calculated by Prior Actuary

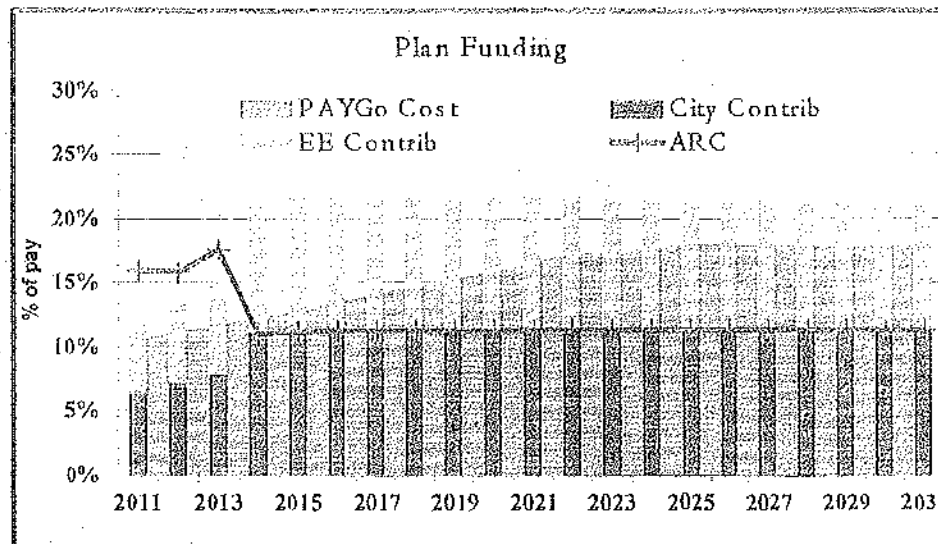
CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

VALUATION RESULTS

Looking beyond 2010, both the liability and assets are projected to increase as the City phases into fully-funding the ARC. The charts below project the assets, liabilities and the funding costs for the next 20 years.



The first chart shows the actuarial liability increasing from about \$926 million to about \$2.1 billion over the next 20 years. The red line on the same chart shows the Net OPEB Obligation (NOO), which is projected to be about \$139 million after 20 years.



CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

VALUATION RESULTS

The second chart shows the projected annual contributions and ARC as a percentage of pay. Benefit payments, net of retiree contributions, are shown by the gray area and increase from 11% to 18% of pay. The teal bars represent the City's contributions, which are equal to the ARC starting in FY 2013-14. The City's contribution is expected to grow from 6.4% in FY 2010-11 to 11.2% of pay in FY 2014-15. The ARC, shown by the red line, is expected to increase to 17.5% of pay before the reduced discount rate (due to fully funding the ARC) and increased employee contributions due to the phase-in result in an ARC of about 11.2% of pay.

Below are the expected net benefit payments that we anticipate for the next 15 years under Pay-As-You-Go.

| Table 4 Expected Net Benefit Payments | | | | | |
|--|-------------------------------------|----------------------------------|-------------------------------------|----------------------------------|-------------------------------------|
| Fiscal Year Ending June 30 | Expected Net Benefit Payments | Fiscal Year Ending June 30 | Expected Net Benefit Payments | Fiscal Year Ending June 30 | Expected Net Benefit Payments |
| 2011 | \$ 34,391,102 | 2016 | \$ 51,521,671 | 2021 | \$ 76,130,140 |
| 2012 | 37,429,865 | 2017 | 56,333,709 | 2022 | 81,542,376 |
| 2013 | 40,706,062 | 2018 | 60,913,899 | 2023 | 86,468,730 |
| 2014 | 43,867,262 | 2019 | 65,237,193 | 2024 | 90,882,655 |
| 2015 | 47,369,846 | 2020 | 70,446,495 | 2025 | 95,357,638 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

RECONCILIATION

Liabilities

Table 4 provides an estimate of the major factors contributing to the change in liability since the last valuation report. Medical and dental liabilities have been grouped together in the reconciliation table below.

| Table 5 Reconciliation of Actuarial Liability – GASB Basis | |
|---|----------------|
| Actuarial Liability as of June 30, 2009 | \$ 796,448,275 |
| Changes due to: | |
| • Passage of Time | \$ 49,391,867 |
| • Demographic Changes | 14,153,905 |
| • Change in Claims Assumptions | 29,592,153 |
| • Change in Trend Assumptions | 35,517,187 |
| • Change in Actuary and Other Assumptions | 1,267,475 |
| Total Changes | \$ 129,922,587 |
| Actuarial Liability as of June 30, 2010 | \$ 926,370,862 |

- *Passage of Time* refers to the expected increase in actuarial liability from June 30, 2009 to June 30, 2010.
- *Demographic Changes* refers to the change in actual data and elections from June 30, 2009 to June 30, 2010.
- *Change in Claims Assumptions* refers to the change in expected current and future healthcare claims and expense costs.
- *Change in Health Assumptions* refers to the change the per person cost trends.
- *Change in Other Assumptions* refers to the change in the discount rate from 6.70% to 6.71%.

Assets

Table 6 below shows the reconciliation of assets for the fiscal year. This section reconciles to the assets of June 30, 2010 that were used to develop the FY 2010-11 ARC.

| Table 6 Assets | | |
|---------------------------------|---------------|---------------|
| | 6/30/2010 | 6/30/2009 |
| Market Value, Beginning of Year | \$ 85,563,934 | \$ 94,520,000 |
| Contributions | | |
| Employee | 15,815,227 | 15,076,000 |
| City | 17,027,157 | 16,368,000 |
| Total | \$ 32,842,384 | \$ 31,444,000 |
| Net Investment Earnings | 13,670,247 | (18,675,000) |
| Benefit Payments | (24,065,584) | (21,725,000) |
| Market Value, End of Year | \$108,010,981 | \$ 85,564,000 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

SENSITIVITY OF RESULTS

The liabilities and ARC produced in this report are sensitive to the assumptions used. The tables below show the impact of a 1% increase or decrease in the health care trend rates on the actuarial liability using the blended discount rate and the ARC to provide some measure of sensitivity.

| Table 7 Actuarial Liability 6.71% Blended Discount Rate (in thousands) | | | |
|---|----------------|----------------|----------------|
| Health Care Trend Rate | - 1% | Base | + 1% |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 430,441 | \$ 479,423 | \$ 537,497 |
| Term Vested Members | 31,625 | 35,861 | 40,994 |
| Active Employees | <u>491,802</u> | <u>613,294</u> | <u>773,465</u> |
| Total | \$ 953,868 | \$ 1,128,578 | \$ 1,351,956 |
| Present Value of Future Normal Costs | <u>145,078</u> | <u>202,207</u> | <u>287,386</u> |
| Actuarial Liability | \$ 808,790 | \$ 926,371 | \$ 1,064,570 |
| Assets | <u>108,011</u> | <u>108,011</u> | <u>108,011</u> |
| UAL | \$ 700,779 | \$ 818,360 | \$ 956,559 |

| Table 8 GASB ARC - FY2011 6.71% Blended Discount Rate (in thousands) | | | |
|---|---------------|---------------|---------------|
| Health Care Trend Rate | - 1% | Base | + 1% |
| Total Normal Cost | \$ 16,020 | \$ 22,196 | \$ 31,404 |
| Less Employee Contribution towards | | | |
| Normal Cost | <u>17,284</u> | <u>17,284</u> | <u>17,284</u> |
| Employer Normal Cost | \$ (1,264) | \$ 4,912 | \$ 14,120 |
| UAL Amortization | <u>34,948</u> | <u>42,681</u> | <u>51,771</u> |
| Total ARC | \$ 33,684 | \$ 47,593 | \$ 65,891 |

CITY OF SAN JOSE
JULY 1, 2010 POST-RETIREMENT HEALTH VALUATION

ACTUARIAL FUNDING

The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method. This section of the report calculates the current and expected future contribution requirements under these agreements. Contributions are currently made to a 401(h) account in the pension trust. This report ignores any potential limits to contributions to the 401(h) account, assuming the City will establish another trust vehicle if needed to accept the contributions required by the collective bargaining agreements.

The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of 8 to 3 with the City contributing 8/11 of the total contribution. The following table develops the UAL separately for medical and dental benefits based on the full funding discount rate of 7.95%.

| <p style="text-align: center;">Table 9 Unfunded Actuarial Liability Actuarial Funding</p> | | | |
|--|--------------------|-------------------|--------------------|
| | Medical | Dental | Total |
| Present Value of Future Benefits | | | |
| Retirees and Beneficiaries | \$ 376,870,766 | \$ 46,480,554 | \$ 423,351,320 |
| Term Vested Members | 30,766,728 | 215,892 | 30,982,620 |
| Active Employees | <u>431,534,893</u> | <u>41,181,090</u> | <u>472,715,983</u> |
| Total | \$ 839,172,387 | \$ 87,877,536 | \$ 927,049,923 |
| Present Value of Future Normal Costs | <u>124,354,586</u> | <u>13,208,992</u> | <u>137,563,578</u> |
| Actuarial Liability | \$ 714,817,801 | \$ 74,668,544 | \$ 789,486,345 |
| Assets* | <u>97,795,449</u> | <u>10,215,532</u> | <u>108,010,981</u> |
| Unfunded Actuarial Liability | \$ 617,022,352 | \$ 64,453,012 | \$ 681,475,364 |

* Assets are allocated in proportion to Actuarial Liability

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change. The outstanding balance of each amortization base established in a prior year is based on the amortization schedule used for GASB reporting purposes at the blended discount rate. The amortization base for the current year is equal to the UAL shown in the table above less the outstanding balance of prior year bases. The amortization payment is allocated to medical and dental in proportion to the Actuarial Liability. The following table shows the amortization schedule as of June 30, 2010.

CITY OF SAN JOSE
JULY 1, 2010 POST-RETIREMENT HEALTH VALUATION

ACTUARIAL FUNDING

| Table 10 Amortization Schedule – Full Funding Basis | | | | |
|--|----------------|---------------|---------------|--------------|
| | Total | | Medical | Dental |
| Date | Outstanding | Amortization | Amortization | Amortization |
| Established | Balance | Payment | Payment | Payment |
| 6/30/2009 | \$ 729,099,575 | \$ 45,784,596 | \$ 41,454,351 | \$ 4,330,245 |
| 6/30/2010 | (47,624,211) | (3,748,804) | (3,394,247) | (354,557) |
| Total | \$ 681,475,364 | \$ 42,035,792 | \$ 38,060,104 | \$ 3,975,688 |

Due to the one-year lag between the valuation date and the effective date of new contribution rates, the amortization payments shown in the table above are assumed to be made 18 months after the valuation date and have been adjusted for interest accordingly.

The tables below develop the contribution amounts and rates for the fiscal year ending June 30, 2012 ignoring the phase-in of contribution rates.

| Table 11 FY 2011-12 Contribution Amounts Actuarial Funding | | | |
|--|---------------|--------------|---------------|
| | Medical | Dental | Total |
| Normal Cost | \$ 15,076,075 | \$ 1,875,729 | \$ 16,951,804 |
| Amortization Payment | 38,060,104 | 3,975,688 | 42,035,792 |
| Contribution Amount without Phase-In | | | |
| Employees | 26,568,089 | 1,595,841 | 28,163,930 |
| City | 26,568,090 | 4,255,576 | 30,823,665 |
| Total | \$ 53,136,179 | \$ 5,851,417 | \$ 58,987,596 |

| Table 12 FY 2011-12 Contribution Rates Actuarial Funding | | | |
|--|---------|--------|--------|
| | Medical | Dental | Total |
| Normal Cost | 4.84% | 0.60% | 5.44% |
| Amortization Payment | 12.21% | 1.27% | 13.48% |
| Contribution Amount without Phase-In | | | |
| Employees | 8.52% | 0.51% | 9.03% |
| City | 8.53% | 1.36% | 9.89% |
| Total | 17.05% | 1.88% | 18.92% |

The agreement to phase-in contributions to the full ARC by 2013-14 also contains a limit preventing either employee or City contribution rates from increasing by more than 0.75% per year until the last year of the phase-in when the full ARC must be contributed. The table below shows the projected contribution rates reflecting the phase-in.

CITY OF SAN JOSE
JULY 1, 2010 POST-RETIREMENT HEALTH VALUATION

ACTUARIAL FUNDING

| Table 13 Projected Phase-In Contribution Rates | | | |
|---|----------|--------|--------|
| Fiscal Year | Employee | City | Total |
| 2008-09 | 4.65% | 5.25% | 9.90% |
| 2009-10 | 5.07% | 5.70% | 10.77% |
| 2010-11 | 5.76% | 6.41% | 12.17% |
| 2011-12 | 6.51% | 7.16% | 13.67% |
| 2012-13 | 7.26% | 7.91% | 15.17% |
| 2013-14 | 10.01% | 10.95% | 20.96% |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

ACCOUNTING DISCLOSURES

Statement No. 43 and 45 of the Governmental Accounting Standards Board (GASB) established standards for accounting and financial reporting of Other Postemployment Benefit (OPEB) information by governmental employers and plans. In accordance with those statements, we have prepared the following disclosures:

Net OPEB Obligation

Table 14 below shows the development of the Net OPEB Obligation.

| Table 14 Development of Net OPEB Obligation (in thousands) | | |
|---|----------------|----------------------------|
| | June 30, 2010* | Projected June 30, 2011 |
| 1. Net OPEB Obligation/(Asset) at beginning of fiscal year | \$ 44,760 | \$ 62,589 |
| 2. Annual Required Contribution for FYE | \$ 38,599 | \$ 47,593 |
| 3. Interest on Net OPEB Obligation/(Asset) | 2,999 | 4,200 |
| 4. Adjustment to Annual Required Contribution | <u>2,184</u> | <u>3,264</u> |
| 5. Annual OPEB Cost (2.) + (3.) - (4.) | 39,414 | 48,529 |
| 6. Employer Contributions Made (Actual/Estimated) | 17,598 | 19,234 |
| 7. Implicit Rate Subsidy (Actual/Estimated) | 3,987 | |
| 8. Net OPEB Obligation/(Asset) at end of fiscal year (1.) + (5.) - (6.) - (7.) | \$ 62,589 | \$ 91,883 |

*As shown in the City's CAPR

Schedule of Funding Progress

The schedule of funding progress compares the assets used for funding purposes to the comparable liabilities to determine how well the Plan is funded and how this status has changed over the past several years. The actuarial liability is compared to the actuarial value of assets to determine the funding ratio. The Actuarial Liability under GASB is determined assuming that the Plan is ongoing and participants continue to terminate employment, retire, etc., in accordance with the actuarial assumptions.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

ACCOUNTING DISCLOSURES

| Table 15 Schedule of Funding Progress (in thousands) | | | | | | |
|---|--|--|---|--------------------------|-------------------------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liabilities (b) | Unfunded Actuarial Liabilities (UAAL) (b-a) | Funded Ratio (a/b) | Annual Covered Payroll (c) | (UAAL) as Percentage of Covered Payroll ((b-a)/c) |
| 6/30/2010 | \$ 108,011 | \$926,371 | \$ 818,360 | 12% | \$ 300,069 | 273% |
| 6/30/2009 | 85,564 | 796,448 | 710,884 | 11% | 308,697 | 230% |
| 6/30/2007 | 96,601 | 616,749 | 520,148 | 16% | 271,833 | 191% |
| 6/30/2006 | 81,288 | 702,939 | 621,651 | 12% | 275,559 | 226% |

Schedule of Employer Contributions

The schedule of employer contributions shows whether the employer has made contributions that are consistent with an actuarially sound method of funding the benefits to be provided.

| Table 16 Schedule of Employer Contributions (in thousands) | | | | |
|---|---------------------------|---|-------------------------------------|------------------------|
| Fiscal Year Ended June 30 | Annual OPEB Cost (AOC) | Employer Contributions Plus Implicit Subsidy | Percentage of AOC Contributed | Net OPEB Obligation |
| 2011 | \$ 48,529 | To be determined | To be determined | To be determined |
| 2010 | 39,414 | \$ 21,585 | 55% | \$ 62,589 |
| 2009 | 33,725 | 15,918 | 47% | 44,760 |
| 2008 | 38,513 | 11,560 | 30% | 26,953 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

ACCOUNTING DISCLOSURES

Amortization Schedule

Table 10 above shows the amortization schedule on a full funding basis. However, since the full ARC is not currently being contributed, the amortization schedule based on the blended discount rate of 6.71% that is used to calculate the ARC is shown in Table 17 below.

| Table 17 Amortization Schedule -- ARC Basis | | | | |
|--|-----------------------|----------------------|----------------------|---------------------|
| | Total | | Medical | Dental |
| Date | <u>Outstanding</u> | <u>Amortization</u> | <u>Amortization</u> | <u>Amortization</u> |
| Established | <u>Balance</u> | <u>Payment</u> | <u>Payment</u> | <u>Payment</u> |
| 6/30/2009 | \$ 729,099,575 | \$ 36,810,713 | \$ 33,370,980 | \$ 3,439,733 |
| 6/30/2010 | 89,260,306 | 5,870,868 | 5,322,272 | 548,596 |
| Total | \$ 818,359,881 | \$ 42,681,581 | \$ 38,693,252 | \$ 3,988,329 |

We have also provided a *Note to Required Supplementary Information* for the financial statements.

| Table 18 NOTE TO REQUIRED SUPPLEMENTARY INFORMATION | |
|---|---------------------------------|
| The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows. | |
| Valuation Date | June 30, 2010 |
| Actuarial Cost Method | Individual Entry Age |
| Amortization Method | Level percentage of pay closed* |
| Single Equivalent Amortization Period | 27.6 years |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Payroll Growth Rate | 3.90% |
| Discount Rate | 6.71% |
| Ultimate Rate of Medical Inflation | 4.50% |

* The 6/30/2009 UAL is amortized over a closed 30-year period. Subsequent changes to the UAL are amortized over closed 20-year tapered periods.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

Participant Data as of June 30, 2010:

| Age Group | Eligible Active Employees Years of Service | | | | | | | | Total |
|-----------|---|-------|---------|---------|---------|---------|---------|-----|-------|
| | < 5 | 5 - 9 | 10 - 14 | 15 - 19 | 20 - 24 | 25 - 29 | 30 - 34 | 35+ | |
| Under 25 | 34 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 34 |
| 25 to 30 | 201 | 21 | 1 | 0 | 0 | 0 | 0 | 0 | 223 |
| 30 to 35 | 205 | 123 | 36 | 0 | 0 | 0 | 0 | 0 | 364 |
| 35 to 40 | 128 | 165 | 161 | 20 | 0 | 0 | 0 | 0 | 474 |
| 40 to 45 | 112 | 137 | 177 | 70 | 46 | 1 | 0 | 0 | 543 |
| 45 to 50 | 105 | 108 | 159 | 95 | 164 | 41 | 0 | 0 | 672 |
| 50 to 55 | 97 | 93 | 123 | 95 | 171 | 96 | 7 | 0 | 682 |
| 55 to 60 | 64 | 87 | 118 | 55 | 107 | 36 | 6 | 1 | 474 |
| 60 to 65 | 27 | 46 | 69 | 38 | 51 | 20 | 2 | 2 | 255 |
| Over 65 | 9 | 15 | 45 | 10 | 12 | 6 | 0 | 0 | 97 |
| Total | 982 | 795 | 889 | 383 | 551 | 200 | 15 | 3 | 3,818 |

Average age of active employees: 45.9

Average service: 12.1 years

Annual Earnings: \$300,069,063

| Retirees, Disabled Retirees and Surviving Spouses | | | | | | |
|---|-------------------|---------|-------|------------------|---------|-------|
| Age Group | Medical Insurance | | | Dental Insurance | | |
| | Males | Females | Total | Males | Females | Total |
| Under 50 | 12 | 24 | 36 | 11 | 17 | 28 |
| 50 to 55 | 38 | 39 | 77 | 38 | 36 | 74 |
| 55 to 60 | 169 | 139 | 308 | 178 | 137 | 315 |
| 60 to 65 | 274 | 215 | 489 | 300 | 221 | 521 |
| 65 to 70 | 219 | 184 | 403 | 248 | 211 | 459 |
| 70 to 75 | 177 | 146 | 323 | 199 | 181 | 380 |
| 75 to 80 | 136 | 116 | 252 | 157 | 140 | 297 |
| 80 to 85 | 87 | 97 | 184 | 119 | 133 | 252 |
| 85 to 90 | 67 | 52 | 119 | 97 | 90 | 187 |
| Over 90 | 22 | 32 | 54 | 26 | 49 | 75 |
| Total | 1,201 | 1,044 | 2,245 | 1,373 | 1,215 | 2,588 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

| Prior Vested Terminations | | | |
|---------------------------|------|--------|-------|
| Age Group | Male | Female | Total |
| Under 55 | 0 | 2 | 2 |
| 55 to 60 | 23 | 18 | 41 |
| 60 to 65 | 23 | 15 | 38 |
| 65 to 70 | 10 | 7 | 17 |
| 70 to 75 | 5 | 3 | 8 |
| 75 to 80 | 8 | 3 | 11 |
| Over 80 | 13 | 7 | 20 |
| Total | 82 | 55 | 137 |

| Current Vested Terminations* | | | |
|------------------------------|------|--------|-------|
| Age Group | Male | Female | Total |
| Under 45 | 7 | 3 | 10 |
| 45 to 50 | 17 | 14 | 31 |
| 50 to 55 | 25 | 18 | 43 |
| 55 to 60 | 3 | 0 | 3 |
| 60 to 65 | 1 | 1 | 2 |
| Over 65 | 0 | 0 | 0 |
| Total | 53 | 36 | 89 |

*Includes those term vested participants with at least 15 years of service (37.5% pension multiplier)

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

Economic Assumptions:

1. Expected Return on Plan Assets: 7.90% per year
2. Expected Return on Employer Assets: 4.50% per year
3. Blended Discount Rate: 6.71% per year
4. Per Person Cost Trends:

| Date | | Annual Increase | | |
|-----------------------------|--------------|----------------------|--------|--|
| To Year Beginning July 1 | Pre-Medicare | Medicare Eligible | Dental | |
| 2011 | 9.50% | 7.00% | 5.00% | |
| 2012 | 9.17 | 6.83 | 4.50 | |
| 2013 | 8.83 | 6.67 | 4.50 | |
| 2014 | 8.50 | 6.50 | 4.00 | |
| 2015 | 8.17 | 6.33 | 4.00 | |
| 2016 | 7.83 | 6.17 | 4.00 | |
| 2017 | 7.50 | 6.00 | 4.00 | |
| 2018 | 7.17 | 5.83 | 4.00 | |
| 2019 | 6.83 | 5.67 | 4.00 | |
| 2020 | 6.50 | 5.50 | 4.00 | |
| 2021 | 6.17 | 5.33 | 4.00 | |
| 2022 | 5.83 | 5.17 | 4.00 | |
| 2023 | 5.50 | 5.00 | 4.00 | |
| 2024 | 5.17 | 4.83 | 4.00 | |
| 2025 | 4.83 | 4.67 | 4.00 | |
| 2026+ | 4.50 | 4.50 | 4.00 | |

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum are assumed to increase at the above trend rates.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

| Retirements by Age | |
|--------------------|------------|
| Age | Retirement |
| 50 | 0.00% |
| 51 | 0.00 |
| 52 | 0.00 |
| 53 | 0.00 |
| 54 | 0.00 |
| 55 | 15.00 |
| 56 | 7.50 |
| 57 | 7.50 |
| 58 | 7.50 |
| 59 | 7.50 |
| 60 | 7.50 |
| 61 | 7.50 |
| 62 | 20.00 |
| 63 | 10.00 |
| 64 | 10.00 |
| 65 | 25.00 |
| 66 | 25.00 |
| 67 | 25.00 |
| 68 | 25.00 |
| 69 | 25.00 |
| 70 and over | 100.00 |

The probability of retirement increased to 50% each year after completion of 30 years of service and attainment of age 50.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

2. Termination / Withdrawal Rates:

Sample rates of withdrawal/termination are show in the following table

| Rates of Termination / Withdrawal | | |
|-----------------------------------|------------|--------------------|
| Age | Withdrawal | Vested Termination |
| 20 | 11.00% | 0.00% |
| 25 | 7.00 | 3.00 |
| 30 | 5.00 | 3.00 |
| 35 | 2.50 | 2.75 |
| 40 | 1.50 | 2.00 |
| 45 | 1.25 | 2.00 |
| 50 | 1.25 | 1.50 |
| 55 | 1.00 | 0.00 |
| 60 | 1.00 | 0.00 |
| 65 | 0.00 | 0.00 |

* Withdrawal/termination rates do not npply once a member is eligible for retirement

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the sex distinct 1994 Group Annuity Mortality Tables setback three years for males and one year for females.

| Healthy Mortality Rates | | |
|-------------------------|--------------------------|--------------------------|
| | Male Participants | Female Participants |
| Age | Pre- and Post-Retirement | Pre- and Post-Retirement |
| 20 | 0.043% | 0.028% |
| 25 | 0.056 | 0.029 |
| 30 | 0.073 | 0.033 |
| 35 | 0.084 | 0.045 |
| 40 | 0.089 | 0.065 |
| 45 | 0.125 | 0.092 |
| 50 | 0.190 | 0.131 |
| 55 | 0.321 | 0.208 |
| 60 | 0.558 | 0.386 |
| 65 | 1.015 | 0.762 |
| 70 | 1.803 | 1.271 |
| 75 | 2.848 | 2.038 |
| 80 | 4.517 | 3.536 |

Disabled Lives:

Mortality rates for disabled retirees are based on the 1981 Disability Mortality Table.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

| Disabled Mortality Rates | | |
|--------------------------|---|---|
| Age | Male Participants Pre- and Post- Retirement | Female Participants Pre- and Post- Retirement |
| 20 | 0.660% | 0.660% |
| 25 | 0.960 | 0.960 |
| 30 | 1.220 | 1.220 |
| 35 | 1.480 | 1.480 |
| 40 | 1.760 | 1.760 |
| 45 | 2.080 | 2.080 |
| 50 | 2.440 | 2.440 |
| 55 | 2.840 | 2.840 |
| 60 | 3.300 | 3.300 |
| 65 | 3.790 | 3.790 |
| 70 | 4.370 | 4.370 |
| 75 | 5.530 | 5.530 |
| 80 | 8.740 | 8.740 |

4. Disability Rates:

Sample rates of disability are show in the following table

| Rates of Disability at Selected Ages | |
|---|------------|
| Age | Disability |
| 20 | 0.04% |
| 25 | 0.06 |
| 30 | 0.07 |
| 35 | 0.09 |
| 40 | 0.15 |
| 45 | 0.25 |
| 50 | 0.40 |
| 55 | 0.50 |
| 60 | 1.00 |
| 65 | 2.00 |
| 70 | 0.00 |

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

5. Salary Increase Rate:

Wage inflation component 3.90%

In addition, the following merit component is added based on an individual member's years of service:

| Salary Merit Increase | |
|-----------------------|-------------------|
| Years of Service | Merit & Longevity |
| 0 | 5.75% |
| 1 | 3.75 |
| 2 | 2.25 |
| 3 | 1.75 |
| 4 | 1.00 |
| 5+ | 0.25 |

- 6. Percent of Retirees Electing Coverage:** 100% of employees are assumed to elect coverage at retirement. Future retirees plan elections are assumed to mirror current retiree plan elections. The following rates are used to determine blended claims and contributions for future retirees:

| Assumed Plan Elections for Future Retirees | | |
|--|--------------|-------------------|
| Plan | Pre-Medicare | Medicare Eligible |
| Medical | | |
| • Kaiser | 71% | 46% |
| • HMO | 22% | 6% |
| • PPO | 5% | 42% |
| • POS | 2% | N/A |
| • Secure Horizons | N/A | 4% |
| • Pacificare | N/A | 2% |
| Dental | | |
| • Delta Dental PPO | | 97% |
| • DeltaCare HMO | | 3% |

- 7. Family Composition:** 55% of employees will elect spouse coverage in a medical plan at retirement. 65% of employees will elect spouse coverage in a dental plan at retirement.
- 8. Dependent Age:** For current active employees, males are assumed to be 3 years older than female spouses. For current retirees, actual spouse date of birth was used.
- 9. Married Percentage:** 100% of employees are assumed to be married.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

10. Administrative Expenses: Included in the average monthly premiums.

Changes Since Last Valuation

The assumption for the expected rate of return on plan investments was changed from 7.75% to 7.95%. The payroll growth assumption was changed from 3.83% to 3.90%.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

Claim and Expense Assumptions:

1. **Average Annual Claims and Expense Assumptions:** The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2010 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

Actives Employees:

| Age | Medical | |
|-----|---------|---------|
| | Male | Female |
| 40 | \$3,216 | \$5,724 |
| 45 | 4,032 | 6,060 |
| 50 | 5,340 | 7,188 |
| 55 | 7,020 | 8,568 |
| 60 | 9,120 | 10,224 |
| 64 | 11,784 | 12,624 |
| 65 | 5,148 | 5,484 |
| 70 | 6,036 | 6,060 |
| 75 | 6,756 | 6,528 |
| 80 | 7,176 | 6,744 |
| 85 | 7,272 | 6,672 |

Current Retirees:

| Age | Kaiser - Male | | | Kaiser - Female | | |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | 5,809 | 3,873 | (1,936) | 5,809 | 5,820 | 11 |
| 50 | 5,809 | 5,130 | (679) | 5,809 | 6,903 | 1,094 |
| 55 | 5,809 | 6,741 | 932 | 5,809 | 8,226 | 2,417 |
| 64 | 5,809 | 11,317 | 5,508 | 5,809 | 12,133 | 6,324 |
| 65 | 5,157 | 4,616 | (541) | 5,157 | 4,923 | (234) |
| 70 | 5,157 | 5,420 | 263 | 5,157 | 5,436 | 279 |
| 75 | 5,157 | 6,061 | 903 | 5,157 | 5,862 | 704 |
| 80 | 5,157 | 6,439 | 1,282 | 5,157 | 6,051 | 893 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

| Age | HMO - Male | | | HMO - Female | | |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | 6,482 | 4,285 | (2,197) | 6,482 | 6,439 | (43) |
| 50 | 6,482 | 5,675 | (807) | 6,482 | 7,637 | 1,155 |
| 55 | 6,482 | 7,458 | 975 | 6,482 | 9,101 | 2,619 |
| 64 | 6,482 | 12,521 | 6,038 | 6,482 | 13,424 | 6,941 |
| 65 | 4,950 | 4,825 | (124) | 4,950 | 5,146 | 197 |
| 70 | 4,950 | 5,666 | 716 | 4,950 | 5,683 | 733 |
| 75 | 4,950 | 6,335 | 1,386 | 4,950 | 6,127 | 1,178 |
| 80 | 4,950 | 6,731 | 1,781 | 4,950 | 6,325 | 1,375 |

| Age | PPO - Male | | | PPO - Female | | |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | 9,000 | 4,703 | (4,297) | 9,000 | 7,067 | (1,933) |
| 50 | 9,000 | 6,229 | (2,771) | 9,000 | 8,382 | (618) |
| 55 | 9,000 | 8,185 | (815) | 9,000 | 9,989 | 988 |
| 64 | 9,000 | 13,742 | 4,742 | 9,000 | 14,733 | 5,733 |
| 65 | 6,994 | 5,905 | (1,089) | 6,994 | 6,298 | (696) |
| 70 | 6,994 | 6,934 | (61) | 6,994 | 6,955 | (40) |
| 75 | 6,994 | 7,753 | 759 | 6,994 | 7,499 | 505 |
| 80 | 6,994 | 8,238 | 1,243 | 6,994 | 7,740 | 746 |

| Age | POS - Male | | | POS - Female | | |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | 9,000 | 5,388 | (3,612) | 9,000 | 8,097 | (903) |
| 50 | 9,000 | 7,136 | (1,864) | 9,000 | 9,603 | 602 |
| 55 | 9,000 | 9,377 | 377 | 9,000 | 11,444 | 2,443 |
| 64 | 9,000 | 15,744 | 6,743 | 9,000 | 16,879 | 7,879 |

| Age | Secure Horizons - Male | | | Secure Horizons - Female | | |
|-----|------------------------|----------------|------------------|--------------------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 65 | 5,335 | 4,235 | (1,100) | 5,335 | 4,516 | (818) |
| 70 | 5,335 | 4,972 | (362) | 5,335 | 4,987 | (348) |
| 75 | 5,335 | 5,560 | 225 | 5,335 | 5,377 | 43 |
| 80 | 5,335 | 5,907 | 573 | 5,335 | 5,551 | 216 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

| Age | Pacificare - Male | | | Pacificare - Female | | |
|-----|-------------------|----------------|------------------|---------------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 65 | 4,746 | 3,950 | (795) | 4,746 | 4,213 | (532) |
| 70 | 4,746 | 4,639 | (107) | 4,746 | 4,653 | (93) |
| 75 | 4,746 | 5,187 | 441 | 4,746 | 5,017 | 271 |
| 80 | 4,746 | 5,511 | 765 | 4,746 | 5,178 | 433 |

| Dental | |
|------------------|--------------------------------|
| Plan | Monthly Premium (every age) |
| Delta Dental PPO | \$669 |
| DeltaCare HMO | 300 |

2. **Medicare Part D Subsidy:** Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.
3. **Medicare Part B Premiums:** Assumed that Medicare eligible retirees pay the Medicare Part B premiums.
4. **Medicare Eligibility:** Age 65
5. **Annual Limits:** Assumed to increase at the same rate as trend.
6. **Lifetime Maximums:** Are not assumed to have any financial impact.
7. **Geography:** Implicitly assumed to remain the same as current retirees.
8. **Retiree Contributions:**

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser rate.

Future retirees are assumed to pay the following rates:

| | Retiree | Spouse |
|-------------------|---------|--------|
| Pre-Medicare | \$372 | \$717 |
| Medicare Eligible | 498 | 0 |

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX A
PARTICIPANT DATA, ASSUMPTIONS AND METHODS

Methodology:

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population.

Changes Since Last Valuation:

We modified the claim costs to reflect current retiree plan election experience.

We modified the trends to reflect current experience and our expectation for the future. We anticipate that the healthcare trends for the following years will be higher because of anticipated increases due to healthcare reform legislation, followed by trends decreasing to the lower ultimate trend level.

We did not make any adjustments for the Patient Protection and Affordable Care Act of 2010 or related legislation or regulations, except in reference to our industry trend assumptions.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX B
SUBSTANTIVE PLAN PROVISIONS

Summary of Key Substantive Plan Provisions:

Eligibility:

Medical: Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 19 (24 if a full-time student).

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1. the employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. both the member and the survivors were enrolled in the active medical plan immediately before death; and
3. the survivor will receive a monthly pension benefit.

Dental: Employees who retire or become disabled directly from City service with at least 5 years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City's dental plan at the time of the member's retirement.

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1. the employee has 5 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. both the member and the survivors were enrolled in the active dental plan immediately before death; and
3. the survivor will receive a monthly pension benefit.

CITY OF SAN JOSE
JUNE 30, 2010 OTHER POSTEMPLOYMENT BENEFITS

APPENDIX B
SUBSTANTIVE PLAN PROVISIONS

Benefits for Retirees:

Medical: The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2010, the lowest cost health plan is the Kaiser plan. The single coverage amount is \$484.06 per month, and the family coverage amount is \$1,205.20 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental: The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums: Monthly premiums before adjustments for 2010 are as follows.

| Monthly Premiums for 2010 | | | | |
|-----------------------------------|----------|------------|------------|------------|
| | Single | % Increase | Family | % Increase |
| Medical | | | | |
| <u>Non-Medicare Monthly Rates</u> | | | | |
| Kaiser – Traditional (CA) | \$484.06 | 9.0% | \$1,205.20 | 9.0% |
| Blue Shield HMO | 540.20 | 9.9% | 1,387.72 | 9.9% |
| Blue Shield PPO or POS | 750.02 | 11.9% | 1,927.48 | 11.9% |
| <u>Medicare Monthly Rates</u> | | | | |
| Kaiser – Senior Advantage | \$429.78 | 3.7% | \$859.56 | 3.7% |
| Secure Horizons | 444.55 | 10.5% | 889.10 | 10.5% |
| Blue Shield Medicare PPO | 582.86 | 11.9% | 1,165.72 | 11.9% |
| Blue Shield Medicare HMO | 412.46 | 9.9% | 824.92 | 9.9% |
| Pacificare Senior Supplement | 395.48 | 4.4% | 790.96 | 4.4% |
| Dental | | | | |
| Delta Dental PPO | \$111.48 | 18.0% | \$111.48 | 18.0% |
| DeltaCare HMO | 49.98 | (0.2)% | 49.98 | (0.2)% |

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San Jose will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

CITY OF SAN JOSE
JULY 1, 2010 POSTRETIREMENT HEALTH VALUATION

APPENDIX C
GLOSSARY OF TERMS

1. Actuarial Assumptions

Assumptions as to the occurrence of future events affecting pension costs, such as: mortality, withdrawal, and retirement; changes in compensation; rates of investment earnings, and asset appreciation or depreciation; procedures used to determine the actuarial value of assets; and other relevant items.

2. Actuarial Cost Method

A procedure for determining the actuarial present value of pension plan benefits and expenses and for developing an allocation of such value to each year of service, usually in the form of a normal cost and an actuarial liability.

3. Actuarial Gain (Loss)

A measure of the difference between actual experience and that expected based upon a set of actuarial assumptions during the period between two actuarial valuation dates, as determined in accordance with a particular actuarial cost method.

4. Actuarial Liability

The portion of the actuarial present value of projected benefits which will not be paid by future normal costs. It represents the value of the past normal costs with interest to the valuation date.

5. Actuarial Present Value (Present Value)

The value as of a given date of a future amount or series of payments. The actuarial present value discounts the payments to the given date at the assumed investment return and includes the probability of the payment being made. As a simple example: assume you owe \$100 to a friend one year from now. Also, assume there is a 1% probability of your friend dying over the next year, in which case you won't be obligated to pay him. If the assumed investment return is 10%, the actuarial present value is:

$$\begin{array}{rcccl} \text{Amount} & & \text{Probability} & \frac{1}{(1+\text{Discount Rate})} & \\ \$100 & \times & \text{of Payment} & \frac{1}{1/(1+.1)} & = \$90 \\ & & (1 - .01) & & \end{array}$$

6. Actuarial Valuation

The determination, as of a specified date, of the normal cost, actuarial liability, actuarial value of assets, and related actuarial present values for a pension plan.

7. Actuarial Value of Assets

The value of cash, investments and other property belonging to a pension plan as used by the actuary for the purpose of an actuarial valuation. The purpose of an actuarial value of assets is to smooth out fluctuations in market values. This way long-term costs are not distorted by short-term fluctuations in the market.

CITY OF SAN JOSE
JULY 1, 2010 POSTRETIREMENT HEALTH VALUATION

APPENDIX C
GLOSSARY OF TERMS

- 8. Amortization Payment**
The portion of the pension plan contribution which is designed to pay interest and principal on the unfunded actuarial liability in order to pay for that liability in a given number of years.
- 9. Projected Unit Credit Actuarial Cost Method**
A method under which the actuarial present value of the projected benefits of each individual included in an actuarial valuation accrued from the date of entry into the plan to the date of the valuation.
- 10. Normal Cost**
That portion of the actuarial present value of pension plan benefits and expenses which is allocated to a valuation year by the actuarial cost method.
- 11. Unfunded Actuarial Liability**
The excess of the actuarial liability over the actuarial value of assets.
- 12. Funded Percentage**
The ratio of the actuarial liabilities to the actuarial value of assets.
- 13. Mortality Table**
A set of percentages which estimate the probability of death at a particular point in time. Typically, the rates are annual and based on age and sex.
- 14. Discount Rate**
The assumed interest rate used for converting projecting dollar related values to a present value as of the valuation date.
- 15. Medical Trend**
The assumed increase in dollar related values in the future due to the increase in the cost of health care.

CITY OF SAN JOSE
JULY 1, 2010 POSTRETIREMENT HEALTH VALUATION

APPENDIX D
LIST OF ABBREVIATIONS

Actuarial Accrued Liability (AAL)
Actuarial Valuation Report (AVR)
Annual Required Contribution (ARC)
Coordination of Benefits (COB)
Deductible and Coinsurance (DC)
Deferred Retirement Option Plan (DROP)
Durable Medical Equipment (DME)
Employee Assistance Program (EAP)
Employee Benefits Division (EBD)
Fiscal Year Ending (FYE)
Governmental Accounting Standards Board (GASB)
Hospital Emergency Room (ER)
In-Network (INN)
Inpatient (IP)
Medicare Eligible (ME)
Net Other Postemployment Benefit (NOO)
Non-Medicare Eligible (NME)
Not Applicable (NA)
Office Visit (OV)
Other Postemployment Benefit (OPEB)
Out-of-Network (OON)
Out-of-Pocket (OOP)
Outpatient (OP)
Pay-as-you-go (PAYGo)
Per Person Per Month (PPPM)
Pharmacy (Rx)
Preferred Provider Organization (PPO)
Primary Care Physician (PCP)
Specialist Care Provider (SCP)
Summary Plan Description (SPD)
Unfunded Actuarial Accrued Liability (UAAL)
Unfunded Actuarial Liability (UAL)
Urgent Care (UC)



CLASSIC VALUES. INNOVATIVE ADVICE.

**Presentation to the
Board of Administration
Federated City
Employees' Retirement System**

**June 30, 2010
OPEB Actuarial Valuation**

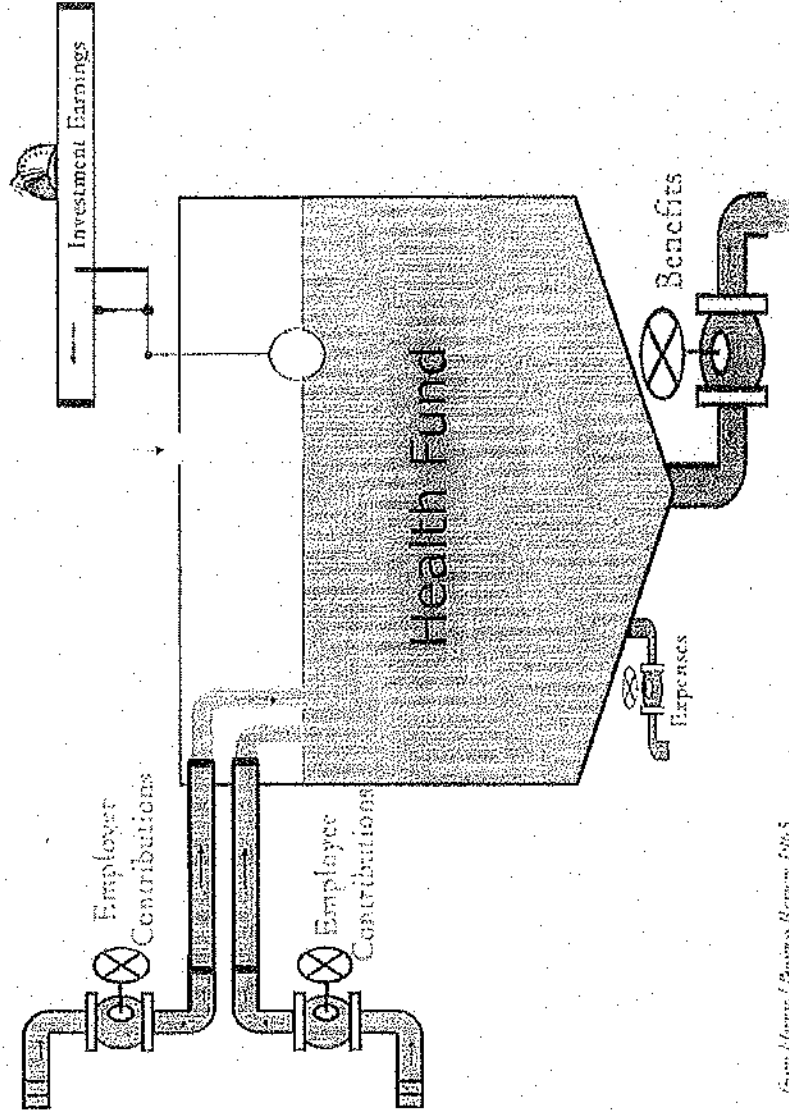
Presentation Date January 13, 2011

By Bill Hallmark

AGENDA

- Actuarial Valuation Overview
- Key Results
- Changes Since Prior Valuation
- Sensitivity to Health Care Trend
- Projections
- Potential Future Issues

Actuarial Valuation Overview



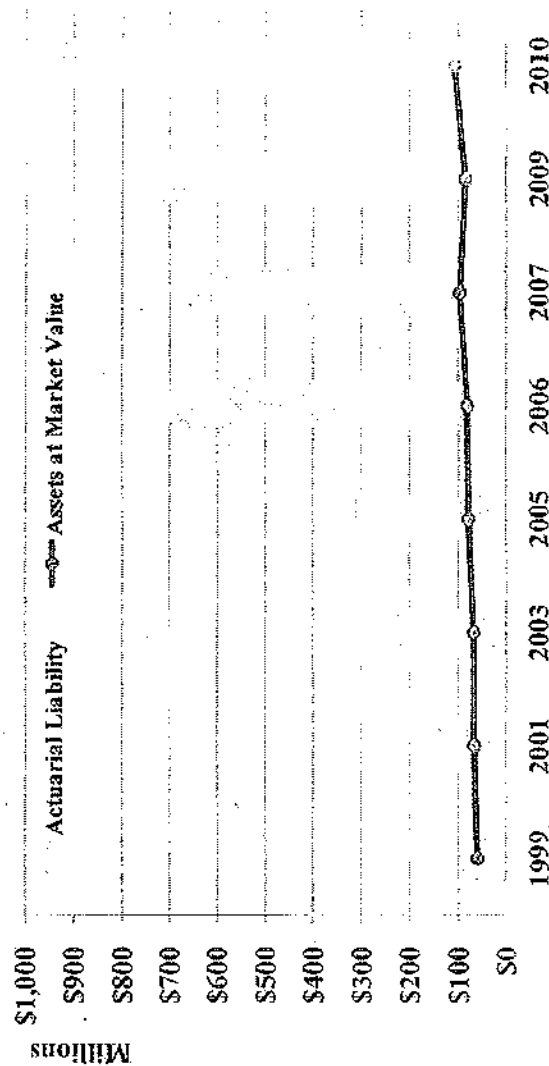
from Harvard Business Review Fall 1985

Key Valuation Results

| Summary of Key Valuation Results (in thousands) | | | | |
|--|------------------|--|------------------|--|
| Valuation Date | 6/30/2010 | | 6/30/2009 | |
| Discount Rate | 7.95% | | 6.70% | |
| Actuarial Liability (AL) | \$ 789,486 | | \$ 796,448 | |
| Assets | 108,011 | | 85,564 | |
| Unfunded Actuarial Liability (UAL) | \$ 681,475 | | \$ 710,884 | |
| Funding Ratio | 14% | | 11% | |
| Fiscal Year Ending | 6/30/2012 | | 6/30/2011 | |
| Member Contribution Rate | 6.51% | | 5.76% | |
| City Contribution Rate | 7.16% | | 6.41% | |
| City Contribution Amount (beginning of year) | \$ 21,471 | | \$ 18,530 | |
| Fiscal Year Ending | 6/30/2011 | | 6/30/2010 | |
| City ARC | 15.86% | | 11.97% | |
| -- if paid as a percent of pay | \$ 47,593 | | \$ 38,599 | |
| -- if paid throughout the fiscal year | | | | |

Key Valuation Results

The City of San Jose Federated Retiree Healthcare Plan



* 2006 was the first GASB 43/45 valuation.

| | 1999 | 2001 | 2003 | 2005 | 2006 | 2007 | 2009 | 2010 |
|--------------------------------|---------|---------|----------|----------|----------|----------|----------|----------|
| Discount Rate | 8.25% | 8.25% | 8.25% | 8.25% | 5.60% | 6.60% | 6.70% | 6.71% |
| Funded Ratio | 66.2% | 48.2% | 34.2% | 24.6% | 11.6% | 15.7% | 10.7% | 11.7% |
| VAL/(Surplus) (in millions) | \$ 31.0 | \$ 72.4 | \$ 145.0 | \$ 235.7 | \$ 621.7 | \$ 520.1 | \$ 710.9 | \$ 818.4 |

Discount Rate
Funded Ratio
VAL/(Surplus)
(in millions)

Key Valuation Results

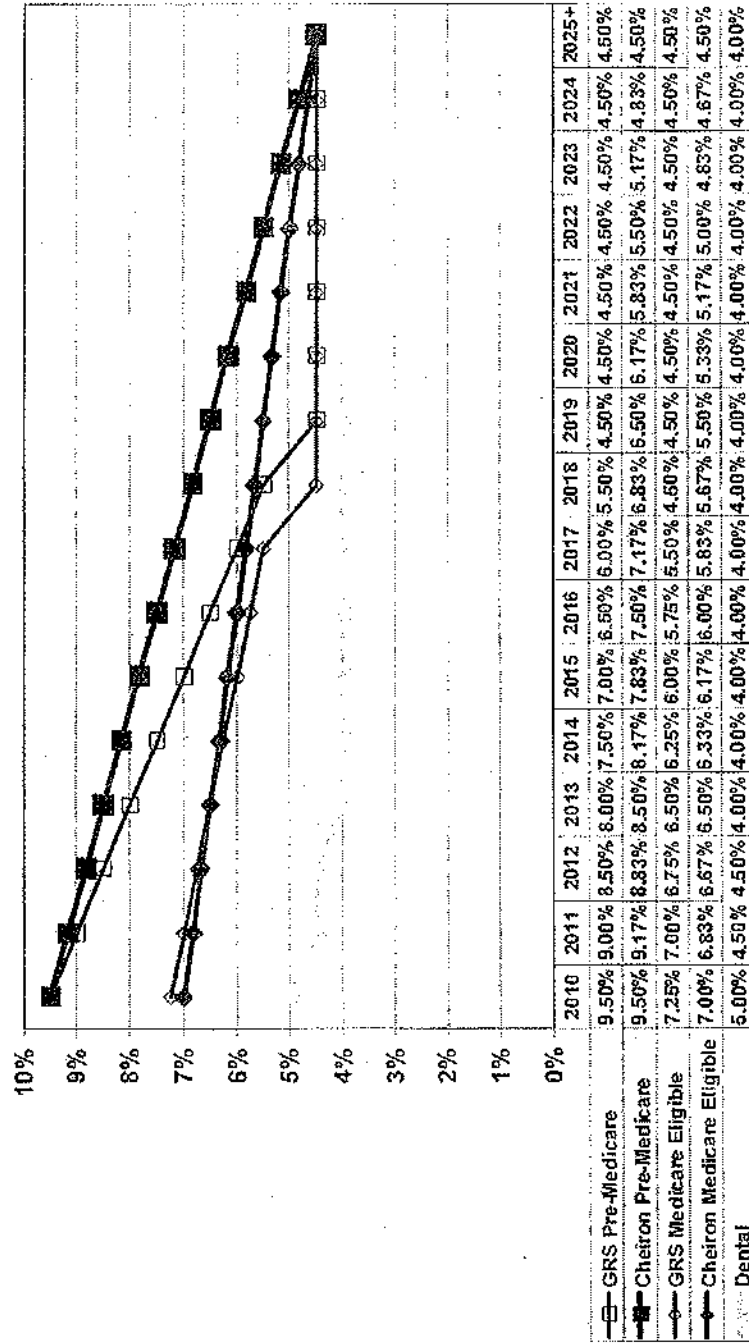
| Projected Phase-In Contribution Rates | | | |
|---------------------------------------|---------------|---------------|---------------|
| Fiscal Year | Employee | City | Total |
| 2008-09 | 4.65% | 5.25% | 9.90% |
| 2009-10 | 5.07% | 5.70% | 10.77% |
| 2010-11 | 5.76% | 6.41% | 12.17% |
| 2011-12 | 6.51% | 7.16% | 13.67% |
| 2012-13 | 7.26% | 7.91% | 15.17% |
| 2013-14 | 10.01% | 10.95% | 20.96% |

Changes Since Prior Valuation

| Reconciliation of Actuarial Liability – GASB Basis (in thousands) | |
|--|------------|
| Actuarial Liability as of June 30, 2009 | \$ 796,448 |
| Changes due to: | |
| • Passage of Time | \$ 49,392 |
| • Demographic Changes | 14,154 |
| • Change in Claims Assumptions | 29,592 |
| • Change in Trend Assumptions | 35,517 |
| • Change in Actuary and Other Assumptions | 1,267 |
| Total Changes | \$ 129,923 |
| Actuarial Liability as of June 30, 2010 | \$ 926,371 |

Changes Since Prior Valuation

Healthcare Trend Rates



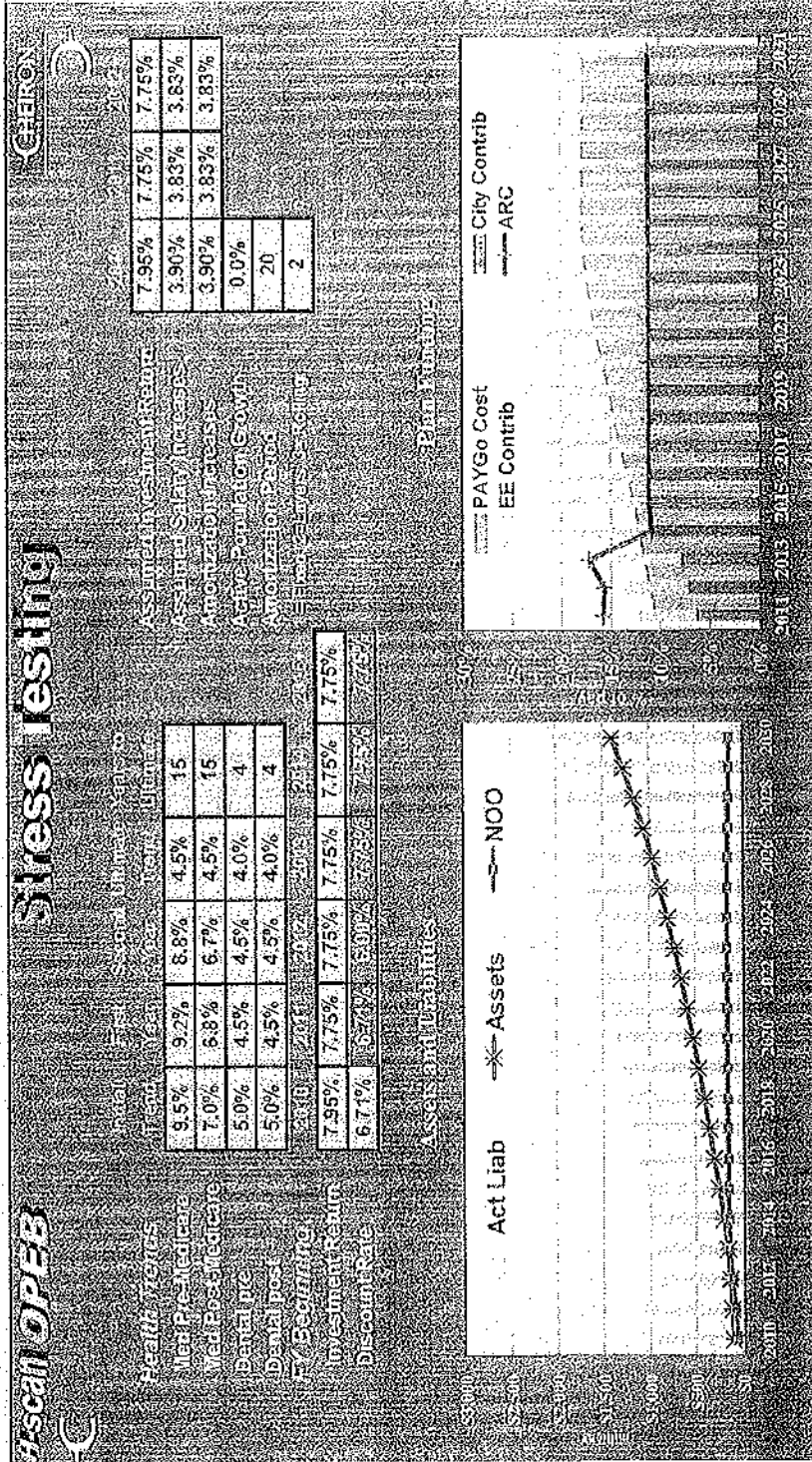
Valuation Year

Sensitivity to Health Care Trend

| Actuarial Liability 6.71% Blended Discount Rate (in thousands) | | | | |
|--|------------|--------------|--------------|--|
| Health Care Trend Rate | - 1% | Base | + 1% | |
| Present Value of Future Benefits | | | | |
| Retirees and Beneficiaries | \$ 430,441 | \$ 479,423 | \$ 537,497 | |
| Term Vested Members | 31,625 | 35,861 | 40,994 | |
| Active Employees | 491,802 | 613,294 | 773,465 | |
| Total | \$ 953,868 | \$ 1,128,578 | \$ 1,351,956 | |
| Present Value of Future Normal Costs | 145,078 | 202,207 | 287,386 | |
| Actuarial Liability | \$ 808,790 | \$ 926,371 | \$ 1,064,570 | |
| Assets | 108,011 | 108,011 | 108,011 | |
| UAL | \$ 700,779 | \$ 818,360 | \$ 956,559 | |

| GASB ARC - FY2011 6.71% Blended Discount Rate (in thousands) | | | | |
|--|------------|-----------|-----------|--|
| Health Care Trend Rate | - 1% | Base | + 1% | |
| Total Normal Cost | \$ 16,020 | \$ 22,196 | \$ 31,404 | |
| Less Employee Contribution towards Normal Cost | 17,284 | 17,284 | 17,284 | |
| Employer Normal Cost | \$ (1,264) | \$ 4,912 | \$ 14,120 | |
| UAL Amortization | 34,948 | 42,681 | 51,771 | |
| Total ARC | \$ 33,684 | \$ 47,593 | \$ 65,891 | |

Projections



Potential Future Issues

- ARC is currently calculated for the fiscal year immediately following the valuation while contribution rates are applied with a one-year lag
- Current treatment of implicit subsidy contributions under the ARC and MOU appears to be inconsistent
- 401(h) limit will prevent the full projected contributions from being made to the current trust. Test results are in process
- Impact of federal health care reform

EXHIBIT 7



COUNCIL AGENDA: 01/24/06

ITEM: 3.5

Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Alex Gurza

SUBJECT: See Below

DATE: January 12, 2006

Approved

Ray Winer

Date

1/13/06

SUBJECT: PROPOSED ORDINANCE TO IMPLEMENT A FLAT 3% COST-OF-LIVING ADJUSTMENT (COLA) FOR MEMBERS OF THE FEDERATED RETIREMENT SYSTEM

RECOMMENDATION

Approval of an ordinance amending Chapter 3.44 of Title 3 of the San Jose Municipal Code by adding Section 3.44.160 to provide a flat 3% Cost-of-Living Adjustment effective April 1, 2006, for persons retired from the Federated City Employees Retirement System and for survivors of members or retirees.

BACKGROUND

Currently, the Federated Retirement System provides an annual adjustment in retirement benefits equal to the increase in the Consumer Price Index (CPI), up to 3%. If the CPI grows by more than 3%, the portion in excess of 3% is "banked" and is applied in years when the CPI grows by less than 3%. For example, if the CPI increases by 5%, retirees receive a 3% COLA and 2% is "banked" to be used in years when the CPI is less than 3%.

Prior to February 1, 2002, the Police and Fire Department Retirement Plan had the same COLA benefits as the Federated Retirement System. Effective February 1, 2002, the COLA benefits in the Police and Fire Department Retirement Plan were changed to a flat 3% COLA. The change resulted in a 3% COLA every year, regardless of the actual change in the CPI and the "banking" feature was eliminated.

Bargaining units representing employees receiving benefits from the Federated Retirement System initiated discussions regarding the implementation of a flat 3% Cost-of-Living Adjustment (COLA) for employees who were to retire from the Federated City Employees Retirement System and for survivors of members or retirees.

ANALYSIS

In October 2004, the City Administration and the bargaining unit representatives requested that the Federated Retirement Board's actuary study the cost impact of implementing a flat 3% Cost-of-Living Adjustment, including any impact to the City's contribution rate to the retirement system, any impact to the employee contribution rate to the retirement system, and any impact to the unfunded accrued liability.

In December 2004, the Board's actuary, Mr. Norman S. Losk from Gabriel, Roeder, Smith & Company, issued a response indicating that a benefit enhancement of a flat 3% Cost-of-Living increase would have no impact on the contribution requirement developed in the actuarial valuation as of June 30, 2003. Because Mr. Losk did not comment on any potential impact to the unfunded accrued liability (positively or negatively) by changing the benefit from a COLA adjustment that is based upon the CPI (with the banking feature) to a fixed 3% COLA regardless of the actual CPI, in March 2005, the City Administration requested further clarification from Mr. Losk. In April 2005, Mr. Losk issued a letter confirming his opinion that this change will have minimal impact on the actuarial accrued liabilities of the system and the actuarially calculated contribution rates for the system.

However, in the event the Board's actuary determines that there is an increased cost resulting from the implementation of the change to a flat 3% Cost-of-Living adjustment, the bargaining units have agreed that such increased cost shall be paid by employees through the employees' contribution rate. Although bargaining units negotiate benefits only for current employees, the recommendation includes changing the COLA for current retirees with the agreement from the bargaining units that the members will pay for the entire cost of this change, if there is determined to be any.

On December 8, 2005, the Federated Retirement Board reviewed and approved the draft ordinance that would implement a flat 3% Cost-of-Living Adjustment effective April 1, 2006.

OUTCOMES

Not applicable.

PUBLIC OUTREACH

Not applicable.

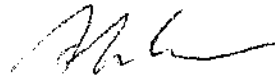
HONORABLE MAYOR AND CITY COUNCIL
January 12, 2006
Subject: Flat 3% Cost-of-Living Adjustment (COLA)
Page 3 of 3

COORDINATION

This memorandum was coordinated with the Department of Retirement Services and the City Attorney's Office. The recommendation is a result of discussions with the bargaining units representing employees in the Federated Retirement System. The draft ordinance was reviewed by the Federated Retirement Board at its meeting on December 8, 2005.

COST IMPLICATIONS

There is no increased direct cost to the City for this benefit enhancement. In the event the Board's actuary determines that there is an increased cost to implement the change to a flat 3% Cost-of-Living adjustment, such increased cost will be paid for by the members of the Federated Retirement System as part of the employees' contribution rate.



Alex Gurza
Director of Employee Relations

EXHIBIT 8

Historical Values of Inflation (Consumer Price Index - CPI)

| Year | Consumer Price Index - All Urban Consumers | | | Consumer Price Index - Urban Wage Earners and Clerical Workers | | |
|---------|---|------------------|----------------------|--|------------------|----------------------|
| | (January of Year) | Annual Change | Cumulative Change | (January of Year) | Annual Change | Cumulative Change |
| 1975 | 52.30 | | | 52.60 | | |
| 1976 | 55.80 | 6.7% | 6.7% | 56.20 | 6.8% | 6.8% |
| 1977 | 58.70 | 5.2% | 12.2% | 59.10 | 5.2% | 12.4% |
| 1978 | 62.70 | 6.8% | 19.9% | 63.00 | 6.6% | 19.8% |
| 1979 | 68.50 | 9.3% | 31.0% | 68.80 | 9.2% | 30.8% |
| 1980 | 78.00 | 13.9% | 49.1% | 78.50 | 14.1% | 49.2% |
| 1981 | 87.20 | 11.8% | 66.7% | 87.70 | 11.7% | 66.7% |
| 1982 | 94.40 | 8.3% | 80.5% | 94.80 | 8.1% | 80.2% |
| 1983 | 97.90 | 3.7% | 87.2% | 98.20 | 3.6% | 86.7% |
| 1984 | 102.10 | 4.3% | 95.2% | 101.80 | 3.7% | 93.5% |
| 1985 | 105.70 | 3.5% | 102.1% | 105.20 | 3.3% | 100.0% |
| 1986 | 109.90 | 4.0% | 110.1% | 109.10 | 3.7% | 107.4% |
| 1987 | 111.40 | 1.4% | 113.0% | 110.20 | 1.0% | 109.5% |
| 1988 | 116.00 | 4.1% | 121.8% | 114.70 | 4.1% | 118.1% |
| 1989 | 121.20 | 4.5% | 131.7% | 119.90 | 4.5% | 127.9% |
| 1990 | 127.50 | 5.2% | 143.8% | 126.10 | 5.2% | 139.7% |
| 1991 | 134.70 | 5.6% | 157.6% | 132.90 | 5.4% | 152.7% |
| 1992 | 138.30 | 2.7% | 164.4% | 136.20 | 2.5% | 158.9% |
| 1993 | 142.80 | 3.3% | 173.0% | 140.50 | 3.2% | 167.1% |
| 1994 | 146.30 | 2.5% | 179.7% | 143.80 | 2.3% | 173.4% |
| 1995 | 150.50 | 2.9% | 187.8% | 148.00 | 2.9% | 181.4% |
| 1996 | 154.70 | 2.8% | 195.8% | 152.00 | 2.7% | 189.0% |
| 1997 | 159.40 | 3.0% | 204.8% | 156.60 | 3.0% | 197.7% |
| 1998 | 162.00 | 1.6% | 209.8% | 158.80 | 1.4% | 201.9% |
| 1999 | 164.70 | 1.7% | 214.9% | 161.40 | 1.6% | 206.8% |
| 2000 | 169.30 | 2.8% | 223.7% | 166.00 | 2.9% | 215.6% |
| 2001 | 175.60 | 3.7% | 235.8% | 172.20 | 3.7% | 227.4% |
| 2002 | 177.7 | 1.2% | 239.8% | 173.7 | 0.9% | 230.2% |
| 2003 | 182.6 | 2.8% | 249.1% | 178.6 | 2.8% | 239.5% |
| 2004 | 186.3 | 2.0% | 256.2% | 181.9 | 1.8% | 245.8% |
| 2005 | 191.6 | 2.8% | 266.3% | 187.2 | 2.9% | 255.9% |
| 2006 | 199.3 | 4.0% | 281.1% | 195.1 | 4.2% | 270.9% |
| 2007 | 203.437 | 2.1% | 289.0% | 198.613 | 1.8% | 277.6% |
| 2008 | 212.174 | 4.3% | 305.7% | 207.931 | 4.7% | 295.3% |
| 2009 | 211.952 | -0.1% | 305.3% | 206.505 | -0.7% | 292.6% |
| 2010 | 217.478 | 2.6% | 315.8% | 213.443 | 3.4% | 305.8% |
| 2011 | 221.067 | 1.7% | 322.7% | 217.328 | 1.8% | 313.2% |
| 2012 | 227.605 | 3.0% | 335.2% | 224.251 | 3.2% | 326.3% |
| 2013 | 231.198 | 1.6% | 342.1% | 227.533 | 1.5% | 332.6% |
| Average | | 4.03% | | | 3.97% | |

US City Average, All Items, Seasonally Adjusted Figures

EXHIBIT 9



City of San José Federated City Employees' Retirement System

Donna Busse
Acting Director



Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

A Pension Trust Fund of the City of San José, California

Department of Retirement Services
1737 North First Street, Suite 580
San Jose, California 95112-4505
Phone 408-794-1000
Fax 408-392-6732
www.sjretirement.com

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Board Chair Letter



Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 28, 2012

The Honorable Mayor and City Council
Members of the Federated City Employees' Retirement System
City of San José
San José, California

Dear Mayor, Council Members, and System Members:

On behalf of the members of the Board of Administration, I am pleased to present the Federated City Employees' Retirement System's (System) Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012.

The System earned a time-weighted gross of investment fees rate of return of -3.0% and net of investment fees rate of return of -3.2% on investments for the fiscal year, compared to a -2.3% return for its policy benchmark and a 1.1% return for the Master Trust Public Funds Median. Additionally, the System earned a time-weighted gross of investment fees rate of return of 9.6% and 1.2% for the three-year and five-year periods ending June 30, 2012, respectively, while the Master Trust Public Funds Median earned a time-weighted rate of return of 11.9% and 1.9% for the same periods. In contrast, the net rate of return assumed by the System's actuary is 7.50%. The net asset value of the System decreased from \$1,896,072,000 to \$1,787,047,000 net of pending purchases and sales (see the Financial Section beginning on page 19). The net decrease in System net assets for fiscal year 2011-2012 was \$109,025,000.

At the beginning of the fiscal year 2011-2012, much of the System's assets were invested in index funds and optimized portfolios designed to earn index returns. During the fourth quarter of calendar year 2011, the Board adopted a new asset allocation in response to the results of an asset-liability study. The Trustees continued implementation of the new asset allocation during the year, which aims to better position the System for potential future market environments.

A major focus for the Board during the fiscal year 2011-2012 was the implementation of the governance structure. The Board hired a governance consultant to develop policies and charters relating to roles and responsibilities of the Board and staff, staffing structure, strategic planning, education and training, and communications protocol.

In May 2012, the Director of Retirement Services, Russell Crosby, announced his intentions to retire. The Trustees conveyed their appreciation for Mr. Crosby's leadership and management of the System during a time when significant beneficial changes were realized. Following Mr. Crosby's retirement in September 2012, the Chief Operations Officer, Donna Busse, was appointed as the Acting Director to lead the Retirement Services Department.

Ms. Busse has over sixteen years of experience with the City and brings a wealth of knowledge across all groups of the Department. The System also saw the departure of its Chief Investment Officer (CIO), Carmen Racy-Choy, in July 2012.

The Board has engaged an executive recruiting firm to search for a Director and a CIO, as well as four Investment Officers, and is working closely in a collaborative process with the City and the Board of Administration for the Police & Fire Department Retirement Plan to select highly qualified candidates to fill

Board Chair Letter *(Continued)*

these key leadership positions.

During the fiscal year, the Board hired Albourne America LLC to provide absolute return asset class consulting as well as Russell Investments to provide policy overlay service on the System's assets in order to reduce the unintended risk of asset allocation drift. In addition, the Board sold its sole individually owned real estate property with the assistance of American Realty Advisors. The Board also hired Reed Smith LLP as the System's general and investment counsel, Ice Miller LLP as the System's tax counsel, and Saltzman and Johnson Law Corporation to provide domestic relations order services.

The Board believes that the professional services rendered by the staff, the auditors, investment counselors, the actuarial consultants, and the System's performance evaluators have produced a sound fund capable of continued growth. The Board of Administration and its staff are available to provide additional information when requested.

Sincerely,

A handwritten signature in dark ink, appearing to read 'M Loesch', is positioned above the printed name.

Matt Loesch, Chairman
Board of Administration

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Introductory Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

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Letter of Transmittal



Department of Retirement Services

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM
POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

November 28, 2012

Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112

Dear Trustees:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the Federated City Employees' Retirement System (System) for the fiscal year ended June 30, 2012. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the System's management. This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. Transactions of the System are reported on the accrual basis of accounting. For an overview and analysis of the financial activities of the System for the fiscal years ended June 30, 2011 and 2012 refer to the Management's Discussion and Analysis on page 22.

Macias Gini & O'Connell LLP, the System's independent auditor, has audited the accompanying financial statements. Management believes internal control is adequate and the accompanying statements, schedules, and tables are fairly presented and free from material misstatement. Sufficient internal controls over financial reporting exist to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules.

The financial audit provides reasonable assurance that the System's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. The System recognizes that even sound and well-designed internal controls have their inherent

limitations in that errors may still occur as a result of factors such as carelessness, faulty judgment, communication breakdowns, and/or that internal controls can be circumvented by internal or external collusion. The System continuously reviews internal controls to ensure that the System's operating policies and procedures are being adhered to and that the controls are adequate to ensure accurate and reliable financial reporting and to safeguard the System's assets.

Information contained in this report is designed to provide a complete and accurate financial review of the year's operations. I am proud to report that the Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its CAFR for the fiscal year ended June 30, 2011. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports. This report must satisfy both generally accepted accounting principles and applicable legal requirements. We believe our current report continues to conform to the Certificate of Achievement Program Requirements and staff will submit it to the GFOA to determine its eligibility for another certificate for the fiscal year ended June 30, 2012. The System also received the Public Pension Standards Award in recognition of meeting professional standards for plan design and administration by the Public Pension Coordinating Council.

I encourage you to review this report carefully. I trust that you and the members of the System will find this CAFR helpful in understanding the System.

Funding

The System's funding for both its defined benefit pension plan and its defined benefit other postemployment healthcare (OPEB) plan is to meet long-term benefit obligations through contributions

Letter of Transmittal *(Continued)*

and investment income. As of June 30, 2011, the funding ratio of the defined benefit pension plan was 65% and for the defined benefit OPEB plan was 12% based on the actuarial value of assets.

For the valuation of pension and OPEB benefits, the actuarial assumption for the net rate of return to be earned by the System is currently 7.50% and 6.10%, respectively. The impact of the difference between the actual net rate of return earned by the System and the 7.50% and 6.10% assumptions will result in deferred investment losses that will be reflected in the pension and OPEB, respectively, unfunded liabilities in next year's CAFR. The net decrease in System assets for fiscal year 2011-2012 was \$109,025,000. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 34. The defined benefit pension plan's funding progress is presented on page 55 and the defined benefit OPEB plan's funding progress is presented on page 56.

Financial and Economic Summary

The 2011-2012 fiscal year began with heightened market volatility and risk aversion affecting the markets, due in part to a renewed focus on the faltering global economy and sovereign debt issues in the Eurozone. The third quarter of calendar year 2011 was the worst quarter for equities since 2008 despite efforts by policymakers, including the announcement of the U.S. Federal Reserve's "Operation Twist" and an expansion of the European Financial Stability Facility. During the fourth quarter of calendar year 2011, investors returned to risky assets due partly to improved economic data and hopes of a resolution to the sovereign debt issues in the Eurozone. Investor optimism persisted during the first few months of calendar year 2012, as global equity markets soared and U.S. stocks experienced their best quarter since 1998. However, a number of near-term issues remained unresolved, including sovereign debt issues in Europe, the potential for a "hard landing" in China, and a stalled recovery in the U.S. economy.

Fiscal year 2013 promises continued volatility in the markets and, while the System is diversified in a way that provides the best possible chance for achieving long-term returns to meet its obligations and objectives, it is of critical importance that the System continues to focus on low volatility and stability of returns going forward.

Investment Summary

The Board of Administration has exclusive control of all investments of the System and is responsible for the establishment of investment objectives, strategies, and policies. Members of the Board serve in a fiduciary capacity and must discharge their duties with respect to the System and the investment portfolio solely in the interest of, and for the exclusive purposes of providing benefits to, members of the System and defraying the reasonable cost of administration.

Over the past fiscal year, the System's gross of fees rate of return was -3.0% and net of investment fees rate of return was -3.2%, while the policy benchmark returned -2.3% and the Master Trust Public Funds Median returned 1.1%. Additionally, the System's gross of fees rate of return was 9.6% and 1.2% for the three-year and five-year periods ending June 30, 2012 respectively, while the Master Trust Public Funds Median was 11.9% and 1.9% for the same periods. The net asset value of the System decreased from \$1,896,072,000 to \$1,787,047,000, net of pending purchases and sales (see the Financial Section beginning on page 19).

At the beginning of the fiscal year 2011-2012, much of the System's assets were invested in index funds and optimized portfolios designed to earn index returns. During the fourth quarter of calendar year 2011, the Board adopted a new asset allocation in response to the results of an asset-liability study. During the fiscal year, the Trustees continued implementation of the new asset allocation, which aims to better position the System for potential future market volatility.

Major Initiatives

In May 2012, the Director of Retirement Services, Russell Crosby, announced his intentions to retire. The Trustees conveyed their appreciation for Mr. Crosby's leadership and management of the System. Under Mr. Crosby's leadership, the System was named Mid-Sized Public Pension Plan of the Year in 2009 for dramatic changes implemented in a complex environment with two separate pension plans and multiple consultants and money managers. Mr. Crosby was also instrumental in the City of San Jose's governance study that resulted in the seating of four public trustees independent of the City on the Board.

Letter of Transmittal (Continued)

The System also saw the departure of its Chief Investment Officer (CIO), Carmen Racy-Choy, who resigned in July 2012. Ms. Racy-Choy was instrumental in the implementation of policy overlay on the Plan's assets and transitioning the assets from active management to optimized portfolios designed to earn index returns. The Board has engaged an executive recruiting firm to search for a Director and a CIO, as well as four Investment Officers.

During the fiscal year 2011-2012, the Trustees continued implementation of the governance structure by hiring a governance consultant to develop policies and procedures relating to roles and responsibilities of the Board and staff, staffing structure, strategic planning, education and training, and communications protocol.

In July 2011, a new Internal Revenue Code Section 115 trust was established by the San Jose City Council to provide an alternative to the existing 401(h) account within the pension fund for retiree healthcare benefits funding. The City Ordinance required the healthcare trust initially be invested in liquid asset classes according to the pension trust investment policy statement until a separate policy is developed, which is expected to be completed during fiscal year 2013.

During the fiscal year, the Board hired Albourne America LLC to provide absolute return asset class consulting as well as Russell Investments to provide policy overlay service on the System's assets in order to reduce the unintended risk of asset allocation drift. In addition, the Board sold its sole individually owned real estate property with the assistance of American Realty Advisors. The Board also hired Reed Smith LLP as the System's general and investment counsel, Ice Miller LLP as the System's tax counsel, and Saltzman and Johnson Law Corporation to provide domestic relations order services.

The Retirement Services staff participated in the Vision and Life Insurance Provider selection for the City of San Jose in conjunction with the City's Human Resources and Labor Groups. A mid-year special open enrollment was conducted for retirees to select a vision provider due to the expiration of the current provider's contract. The special open enrollment allowed retirees the opportunity to enroll or change their Personal Accident Insurance policy. Over 5,000 letters were mailed out and close to 2,000 documents were received.

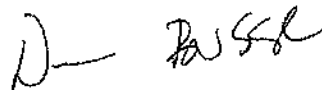
The agreements between the City and certain bargaining groups stipulated that employees be not allowed to have dual coverage under the medical and dental coverage with City retirees. Retirement Services assisted in identifying affected employees and in providing clarification of the San Jose Municipal Code provisions as it pertained to survivorship benefits. As a not-for-profit health plan committed to provide access to high quality care at an affordable price, Blue Shield of California pledged to limit their annual net income to 2% of revenue collected and give back any excess to its customers starting with their 2010 revenues. Retirement Services received a total of \$1.6 million of which 17% was refunded to retirees. The retiree participation during Open Enrollment continues to increase, and in addition to the free flu shots, staff organized bio-metric screenings for retirees for the duration of the Retiree Health Fair.

On June 5, 2012, the voters of San Jose enacted the Sustainable Retirement Benefits and Compensation Act (Pension Act). The Pension Act amended the City Charter to change benefits for current employees to establish different benefits for new employees and to place other limitations on benefits.

Conclusion

I would like to take this opportunity to thank the members of the System for their confidence in the plan management during the past year. I also want to express my thanks to the Board of Administration for its dedicated effort in supporting the staff through this past year. I thank the consultants and staff for their commitment to the System and for their diligent work to assure the System's continued successful operation.

Respectfully Submitted,



Donna Busse
Acting Director

Certificate of Achievement for Excellence
in Financial Reporting

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to
San Jose Federated City
Employees' Retirement System
California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda C. Dandson

President

Jeffrey R. Egan

Executive Director

Certificate of Meeting Professional
Standards in Public Pensions



Public Pension Coordinating Council

**Public Pension Standards Award
For Funding and Administration
2011**

Presented to

**City of San Jose
Federated City Employees' Retirement System**

In recognition of meeting professional standards for
plan funding and administration as
set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in dark ink, reading 'Alan H. Winkle'.

*Alan H. Winkle
Program Administrator*

Board of Administration, Administration, and Outside Consultants

BOARD OF ADMINISTRATION

The Retirement System is administered by a seven-member Board of Administration composed of two City employees elected by members of the system, a Retiree Representative, and three public members, who are not connected with the City and have significant banking or investment experience, and another public member selected by the six Board members and approved by the City Council. The Board is appointed by the City Council and serves in accordance with Section 2.08.300 of the San Jose Municipal Code.

As of June 30, 2012, the members of the Board were as follows:



MAYR LOESCH, CHAIR, CHAIR
Employee Representative appointed to the Board in December 2007. His current term expires November 30, 2015.



LARA DRUYAN, VILE CHAIR
Public member appointed to the Board in December 2010. Her current term expires December 31, 2014.



ARN ANDREWS, TRUSTEE
Employee Representative appointed to the Board in December 2009. His current term expires November 30, 2013.



MARTH DIRKS, TRUSTEE
Public member appointed to the Board in March 2011. His current term expires February 28, 2015.



MICHAEL ARMSTRONG, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires December 31, 2014.



EDWARD F. DVERYON, TRUSTEE
Retired Plan member appointed in January 2009. His current term expires November 30, 2012.



STUART DDELL, TRUSTEE
Public member appointed to the Board in December 2010. His current term expires November 30, 2012.



PETE CONSTANT,
NDN-VOTING BOARD MEMBER

DEPARTMENT OF RETIREMENT SERVICES ADMINISTRATION



RUSSELL W. CRISDY
DIRECTOR OF RETIREMENT SERVICES
(Position vacant as of September 6, 2012)



DONNA DUSSE
DEPUTY DIRECTOR
CHIEF OPERATIONS OFFICER



CARMEN RACY-CHOY
DEPUTY DIRECTOR
CHIEF INVESTMENT OFFICER
(Position vacant as of July 31, 2012)

STANDING PUBLIC MEETINGS

Board Meetings: Third Thursday of the Month, 8:30 AM

Agendas for all public meetings are posted on the bulletin board at City Hall and on the department's website at <http://sjretirement.com/fed/meetings/agendas.asp> or they can be obtained from the retirement office at 1737 North First Street, Suite 580, San Jose, CA 95112. Meeting times and locations are subject to change; please call our office at (408) 794-1000 for current information.

OUTSIDE CONSULTANTS

ACTUARY
Cheiron, Inc.
Encinitas, CA

GENERAL & FIDUCIARY COUNSEL
Reed Smith LLP
San Francisco, CA

INVESTMENT COUNSEL
Reed Smith LLP
Falls Church, VA

INVESTMENT CONSULTANTS
Albourne America LLC - Absolute Return
San Francisco, CA

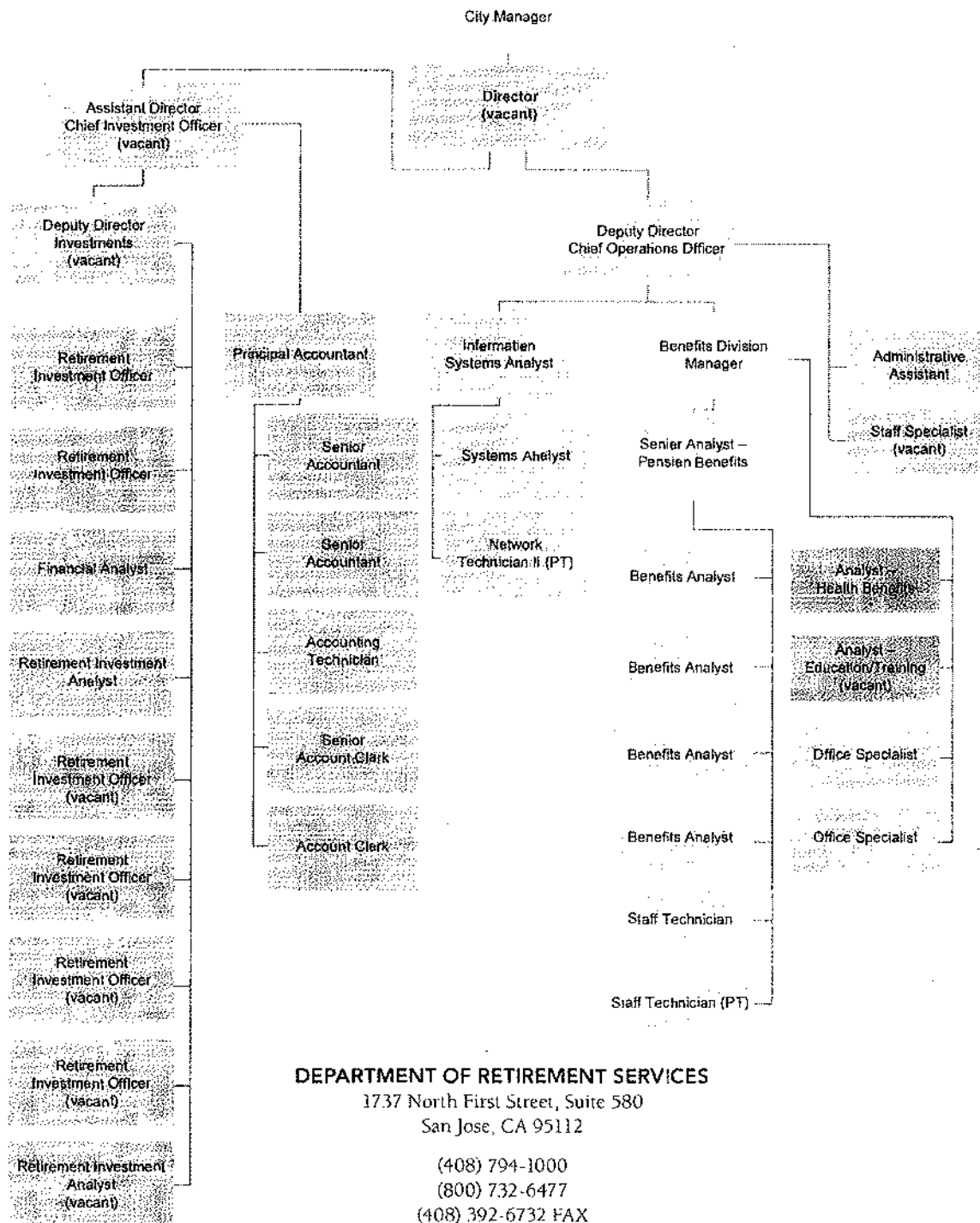
Meketa Investment Group, Inc. - General
Consultant
Carlsbad, CA

AUDITOR
Macias Gini & O'Connell LLP
Walnut Creek, CA

A list of Investment Professionals begins on page 80 of the Investment Section of this report.

2012 Department of Retirement Services Organizational Chart

Department of Retirement Services



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Financial Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012

Independent Auditor's Report

Certified Public Accountants.

Board of Administration of the City of San José
Federated City Employees' Retirement System
San José, California

We have audited the accompanying statements of plan net assets of the City of San José Federated Employees' Retirement System (System), a pension trust fund of the City of San José, California, as of June 30, 2012 and 2011, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2(a), the financial statements of the System are intended to present only the plan net assets and changes in plan net assets of the System. They do not purport to, and do not, present fairly the financial position of the City of San José, California, as of June 30, 2012 and 2011, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the System as of June 30, 2012 and 2011, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5, based on the most recent actuarial valuation as of June 30, 2011, the System's independent actuaries determined that, at June 30, 2011, the value of the defined benefit pension plan's actuarial accrued liability exceeded the actuarial value of its assets by \$982 million. The most recent actuarial value of assets as of June 30, 2011 does not reflect the impact of deferred investment losses of \$28 million that will be recognized in future valuations. As described in Note 6, based on the most recent actuarial valuation as of June 30, 2011, the System's independent actuaries determined that, at June 30, 2011, the value of the postemployment healthcare plan's actuarial accrued liability exceeded the actuarial value of its assets by \$1.0 billion.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2012 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters for the year ended June 30, 2012. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide

Independent Auditor's Report (Continued)

an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the Schedules of Funding Progress and Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory section, other supplementary information in the financial section, investment section, actuarial section and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. The other supplementary information in the financial section is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory, investment, actuarial and statistical sections have not been subjected to the auditing procedures applied in the audits of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Macias Gini & C. Counsel LLP

Walnut Creek, California
November 27, 2012

Management's Discussion and Analysis (Unaudited)



Board of Administration
Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

Donna Busse
Acting Director, Retirement Services

The Department of Retirement Services is pleased to provide this overview and analysis of the financial activities of the Federated City Employees' Retirement System (the System) for the fiscal years ended June 30, 2012, and 2011. The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established to provide retirement benefits for eligible non-sworn employees of the City of San José (City) and their beneficiaries. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 11 of this report, and in the financial section which follows this discussion.

Financial Highlights for Fiscal Year 2012

- As of June 30, 2012, the System had \$1,787,047,000 in total net plan assets held in trust for pension benefits and postemployment healthcare benefits. Net pension assets of \$1,649,249,000 are available to meet the System's ongoing obligations to plan participants and their beneficiaries except the Supplemental Retiree Benefit Reserve of \$43,109,000. The postemployment healthcare net assets of \$137,798,000 are only available for the exclusive use of retiree medical benefits.
- The System's total net assets held in trust for pension benefits and postemployment healthcare benefits decreased by \$109,025,000 or 5.75% from the prior fiscal year, primarily as a result of the depreciation in the fair value of investments caused by a decline in the equity markets and a delay in the implementation of the System's asset allocation adopted by the Board in December 2011 to align the System's expected rate of return with the expected pension benefits liability as determined in the June 30, 2011 valuation.
- Additions to plan net assets for the year were \$64,423,000, which includes member and employer contributions of \$138,466,000, net investment income losses excluding

securities lending of \$74,182,000 and net securities lending income of \$139,000.

- Deductions in plan net assets increased from \$150,731,000 to \$173,448,000 from the prior fiscal year, or approximately 15.1%, due to an increase in retirement benefits and healthcare premiums, which were attributable to an increased number of retired members and beneficiaries and increased health care premium costs.

Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the System's financial statements, which are comprised of these components:

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Notes to the Basic Financial Statements

Please note, however, that this report also contains required supplementary information and supplemental information in addition to the basic financial statements themselves.

The *Statements of Plan Net Assets* are a snapshot of account balances at fiscal year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

The *Statements of Changes in Plan Net Assets*, on the other hand, provide a view of current year additions to and deductions from the System.

Both statements are in compliance with Generally Accepted Accounting Principles (GAAP) as set forth by the Governmental Accounting Standards Board. GAAP requires certain disclosures and state and local government pension plan and other postemployment benefit plan reports use the full accrual method of accounting. The System complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about the System's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which recognizes contributions as revenue when due pursuant to formal commitments as well as statutory and contractual commitments and benefit and refunds of contributions when due and payable under the provision of the System. All of the

Management's Discussion and Analysis (Unaudited) (Continued)

current year's additions and deductions are taken into account regardless of when cash is received or paid. All investment gains and losses are reported at the trade date, not the settlement date. In addition, both realized and unrealized gains and losses on investments are reported.

These two statements report the System's net assets held in trust for pension benefits and postemployment healthcare benefits (net assets)—the difference between assets and liabilities. Over time, increases and decreases in the System's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as the System's funding progress and funded status, should also be considered in measuring the System's overall health (see the schedules of funding progress and schedules of employer contributions on pages 55 - 57 of this report).

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements (see *Notes to Basic Financial Statements* on page 36 of this report).

Other Information In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning the System's progress in funding its obligations to provide pension and other postemployment healthcare benefits to members and employer contributions (see *Required Supplementary Information* beginning on page 55 of this report).

The schedule of funding progress of the Defined Benefit Pension Plan prepared using the market value of plan assets, combining schedules of Defined Benefit Pension Plan net assets and changes in net assets, schedules of administrative expenses and other, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

Financial Analysis

As previously noted, net assets may serve over time as a useful indication of the System's financial position (see Tables 1a and 1e on page 24). At the close of fiscal years 2012 and 2011, the System's total assets exceeded the System's total liabilities. The System's financial statements do not include the actuarial accrued liability for the Defined Benefit Pension Plan and other Postemployment Healthcare Plan.

The funded status of the System should also be considered when evaluating the System's financial health. As of June 30, 2011, the System's most recent valuation, the funded status of the System decreased from 69% to 65% for the Defined Benefit Pension Plan and remained at 12% for the other Postemployment Healthcare Plan. The increase in the unfunded actuarial accrued liability (UAAL) was primarily due to changes in actuarial assumptions as recommended by the Board's actuary and adopted by the Board for the June 30, 2011 valuations. For more information on the results and impact of the June 30, 2011 valuations, please see Notes 5 and 6 to the financial statements on pages 48 - 53.

Management's Discussion and Analysis (Unaudited) (Continued)

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN (Table 1a) As of June 30, 2012, and 2011 (In Thousands)

| | 2012 | 2011 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---------------------------|---------------------|---------------------|-------------------------------|--------------------------------|
| Receivables | \$ 6,715 | \$ 18,714 | \$ (11,999) | -64.1% |
| Investments at Fair Value | 1,649,987 | 1,894,775 | (244,788) | -12.9% |
| Total Assets | 1,656,702 | 1,913,489 | (256,787) | -13.4% |
| Current Liabilities | 7,453 | 152,871 | (145,418) | -95.1% |
| Total Liabilities | 7,453 | 152,871 | (145,418) | -95.1% |
| Net Assets | \$ 1,649,249 | \$ 1,760,618 | \$ (111,369) | -6.3% |

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S DEFINED BENEFIT PENSION PLAN (Table 1b) As of June 30, 2011 and 2010 (In Thousands)

| | 2011 | 2010 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---------------------------|---------------------|---------------------|-------------------------------|--------------------------------|
| Receivables | \$ 18,714 | \$ 10,199 | \$ 8,515 | 83.5% |
| Investments at Fair Value | 1,894,775 | 1,669,536 | 225,239 | 13.5% |
| Total Assets | 1,913,489 | 1,679,735 | 233,754 | 13.9% |
| Current Liabilities | 152,871 | 166,933 | (14,062) | -8.4% |
| Total Liabilities | 152,871 | 166,933 | (14,062) | -8.4% |
| Net Assets | \$ 1,760,618 | \$ 1,512,802 | \$ 247,816 | 16.4% |

NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN

(Table 1c) As of June 30, 2012 and 2011 (In Thousands)

| | 2012 | 2011 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---------------------------|-------------------|-------------------|-------------------------------|--------------------------------|
| Receivables | \$ 960 | \$ 2,507 | \$ (1,547) | -61.7% |
| Investments at Fair Value | 137,425 | 141,820 | (7,395) | -5.1% |
| Total Assets | 138,385 | 147,327 | (8,942) | -6.1% |
| Current Liabilities | 587 | 11,873 | (11,286) | -95.1% |
| Total Liabilities | 587 | 11,873 | (11,286) | -95.1% |
| Net Assets | \$ 137,798 | \$ 135,454 | \$ 2,344 | 1.7% |

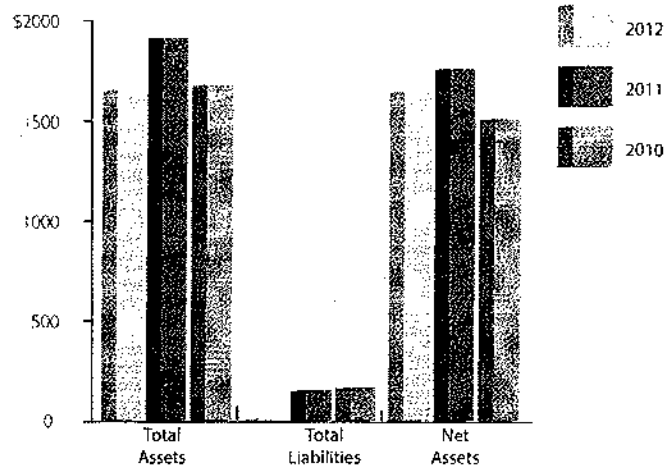
NET ASSETS FOR THE FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM'S POSTEMPLOYMENT HEALTHCARE PLAN

(Table 1d) As of June 30, 2011 and 2010 (In Thousands)

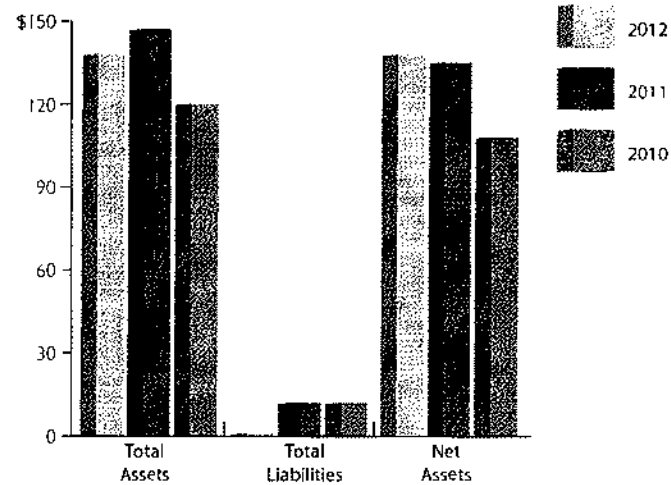
| | 2011 | 2010 | Increase/(Decrease) Amount | Increase/(Decrease) Percent |
|---------------------------|-------------------|-------------------|-------------------------------|--------------------------------|
| Receivables | \$ 2,507 | \$ 2,125 | \$ 382 | 18.0% |
| Investments at Fair Value | 144,820 | 117,920 | 26,900 | 22.8% |
| Total Assets | 147,327 | 120,045 | 27,282 | 22.7% |
| Current Liabilities | 11,873 | 12,034 | (161) | -1.3% |
| Total Liabilities | 11,873 | 12,034 | (161) | -1.3% |
| Net Assets | \$ 135,454 | \$ 108,011 | \$ 27,443 | 25.4% |

Management's Discussion and Analysis (Unaudited) (Continued)

**FEDERATED CITY EMPLOYEES'
RETIREMENT SYSTEM'S
DEFINED BENEFIT PENSION
PLAN NET ASSETS**
*June 30, 2012, 2011 and 2010
(Dollars in Millions)*



**FEDERATED CITY EMPLOYEES'
RETIREMENT SYSTEM'S
POSTEMPLOYMENT
HEALTHCARE PLAN BENEFITS
NET ASSETS**
*June 30, 2012, 2011 and 2010
(Dollars in Millions)*



Management's Discussion and Analysis (Unaudited) (Continued)

As of June 30, 2012 \$1,649,249,000 and \$137,798,000, in total net assets are held in trust for pension benefits and postemployment healthcare benefits, respectively (see Tables 1a and 1c on page 24). Net pension assets of \$1,649,249,000 are available to meet the System's ongoing obligations to plan participants and their beneficiaries except assets held in the Supplemental Retiree Benefit Reserve (a reserve in the defined benefit pension plan), of \$43,109,000, which is used to provide supplemental benefits to retirees on a discretionary basis. Postemployment healthcare net assets of \$137,798,000 are only available for the exclusive use of retiree medical benefits.

As of June 30, 2012, total net assets for the pension benefits decreased by 6.3% and increased by 1.7% for the postemployment healthcare benefits plan from the prior year primarily due to the net depreciation in the fair value of investments of \$98,855,000 and \$7,811,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The depreciation in the fair value of investments was caused by the decline in the international equity and commodities market. During the transition to the new asset allocation the Board hired Russell Investments to provide asset overlay services to rebalance the System's assets to the Board approved long-term targets. The System's current asset allocation is discussed in detail in Note 2(c) of the financial statements on page 38.

As of June 30, 2011, total net assets for the pension benefits and postemployment healthcare benefits plan increased by 16.4% and 25.4% from the prior year primarily due to the net appreciation in the fair value of investments of \$252,848,000 and \$19,238,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. The appreciation in the fair value of investments was caused by the recovery in the investment markets and the System's implementation of a new diversified asset allocation, adopted by the Board in fiscal year 2010, which included an asset allocation to a more diversified structure that includes commodities, absolute return, and opportunistic investments.

As of June 30, 2012, receivables decreased by \$11,999,000 or 61.4% and \$1,547,000 or 61.7% in the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively, due to a decrease in receivables from the City for contributions and brokers and others for year-end investment trades. The prior fiscal year receivables included a pension contribution receivable of approximately \$8,000,000 due from the City to fund the annual required contribution. The City elected not to phase-in the impact of the June 30, 2009 assumption changes on the contribution rates over a five-year period as originally adopted by the Board; see note 5 of the financial statements. In the previous year, receivables for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by \$8,515,000

or 83.5% and \$382,000 or 18.0% due to a year-end contribution receivable from the City to fund the annual required contribution for the fiscal year then ending.

As of June 30, 2012, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by \$145,418,000 or 95.1% and \$11,286,000 or 95.1%, respectively, compared with June 30, 2011, due to the System's exit from securities lending activity. The System received securities lending revenue from July 1 - September 30, 2011. The System exited securities lending activity in September 2011, when the System transitioned custodial services from Northern Trust Company to State Street Bank. As of June 30, 2011, total liabilities for the Defined Benefit Pension Plan and the Postemployment Healthcare Plan decreased by \$14,062,000 or 8.4% and \$161,000 or 1.3%, respectively, compared with June 30, 2010, due to decreases in payables for administrative and health expenses and securities lending collateral due to borrowers. The System's investment in securities lending fluctuated with demand for the System's securities.

System Activities

In fiscal year 2012, the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan net assets decreased by \$109,025,000 or 5.75%, primarily due to the decline in the equity markets experienced in the first half of the fiscal year. In December 2011, the Board adopted a new asset allocation policy to meet the System's long-term expected rate of return and meet future benefit obligations. The fair value of the System's combined Defined Benefit Pension Plan and Postemployment Healthcare Plan investments declined by \$252,183,000 thereby accounting for a 12.36% decrease from the prior year. Key elements of the System's financial activities are described in the sections that follow.

Additions to Plan Net Assets

The assets needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investments (net of investment expense). Additions to the Defined Benefit Pension Plan and Postemployment Healthcare Plan for the fiscal year ended June 30, 2012, were \$28,734,000 and \$35,689,000, respectively (see Tables 2a and 2c on Pages 28 - 29).

In fiscal year ended June 30, 2012, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan decreased by \$342,227,000 and \$19,340,000, or 92.3% and 35.1%, respectively. The primary cause of the decrease from the prior year was net investment losses, excluding

Management's Discussion and Analysis (Unaudited) (Continued)

securities lending income, of \$69,032,000 and \$5,150,000, respectively, compared to investment income of \$287,726,000 and \$21,808,000 in 2011. The net investment losses were a result of the decline in the equity markets during the first half of the fiscal year. The System's time-weighted gross rate of return, as determined by the System's Investment Consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2012, was -3.0% compared to 19.0% for fiscal year 2011. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2012, was -3.2% compared to 18.8% for fiscal year 2011.

In fiscal year ended June 30, 2011, overall additions for the Defined Benefit Pension Plan and Postemployment Healthcare Plan increased by \$105,244,000 and \$8,335,000, or 39.6% and 17.9%, respectively. The increase from the prior year was primary due to increases of \$91,139,000 and \$8,105,000, respectively, in net investment income excluding securities lending income, which was a result of general investment market increases and the System's implementation of a diversified asset allocation adopted by the Board in fiscal year 2010. The System's time-weighted gross rate of return, as determined by the System's Investment Consultant on an investment (non GAAP) basis, for the fiscal year ended June 30, 2011, was 19.0% compared to 14.3% (corrected from 15.9% as previously reported) for fiscal year 2010. Fiscal year 2010 gross and net returns were amended by the System's Investment Consultant in performance reporting due to corrections in their market value and cash flow data for the System. The Investment Consultant's correction did not impact investment values reported in the prior years' financial statements. On a net of manager fee basis, the System's time-weighted rate of return for the fiscal year ended June 30, 2011, was 18.8% compared to 13.7% (corrected from 15.3% as previously reported) for the fiscal year 2010.

to continued increases in retirees and beneficiaries with higher final average salaries. The increases in administrative costs are primarily due to additional professional fees for legal, actuarial and external staffing services. The Deductions for the Postemployment Healthcare Plan, increased by 20.9% from the previous year due to continued increases in healthcare insurance premiums for retirees and beneficiaries (see Table 2c on page 29).

Deductions for the fiscal year ended June 30, 2011, totaled \$123,145,000 and \$27,586,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 12.4% from the previous year due to an increase in retirees and beneficiaries and final average salaries (see Table 2b on page 28). Deductions for the Postemployment Healthcare Plan, increased by 13.8% from the previous year due to increased healthcare insurance premiums for retirees and beneficiaries (see Table 2d on page 29).

Deductions from Plan Net Assets

The System was created to provide lifetime retirement annuities, survivor benefits, permanent disability benefits, and postemployment healthcare benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments and healthcare premium payments, as designated by the San Jose Municipal Code, refunds of contributions to terminated employees, and the cost of administering the System.

Deductions for the fiscal year ended June 30, 2012, totaled \$140,103,000 and \$33,345,000 for the Defined Benefit Pension Plan and Postemployment Healthcare Plan, respectively. Deductions for the Defined Benefit Pension Plan increased 13.8% from the previous year due to an increase in benefit payments and administrative costs (see Table 2a on page 28). The increases in benefit payments are primarily due

Management's Discussion and Analysis (Unaudited) (Continued)

CHANGES IN PLAN NET ASSETS FOR THE DEFINED BENEFIT PENSION PLAN (Table 2a)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

| | 2012 | 2011 | Increase/(Decrease) Amount | Increase/ (Decrease) Percent |
|---|---------------------|---------------------|-------------------------------|------------------------------------|
| Employee Contributions | \$ 10,555 | \$ 24,602 | \$ (14,047) | -57.1% |
| Employer Contributions | 87,082 | 59,180 | 27,902 | 47.1% |
| Net Investment Income/(loss)* | (69,032) | 286,726 | (355,758) | -124.1% |
| Net Securities Lending Income | 129 | 453 | (324) | -71.5% |
| Total Additions | 28,734 | 370,961 | (342,227) | -92.3% |
| * Net of Investment Expenses of \$7,073 and \$3,387 in 2012 and 2011, respectively. | | | | |
| Retirement Benefits | 126,001 | 110,415 | 15,586 | 14.1% |
| Death Benefits | 8,601 | 7,883 | 718 | 9.1% |
| Refund of Contributions | 2,195 | 1,980 | 215 | 10.9% |
| Administrative | 3,306 | 2,867 | 439 | 15.3% |
| Total Deductions | 140,103 | 123,145 | 16,958 | 13.8% |
| Net Increase/(Decrease) in Plan Net Assets | (111,369) | 247,816 | (359,185) | -144.9% |
| Beginning Net Assets | 1,760,618 | 1,512,802 | 247,816 | 16.4% |
| Ending Net Assets | \$ 1,649,249 | \$ 1,760,618 | \$ (111,369) | -6.3% |

CHANGES IN PLAN NET ASSETS FOR THE DEFINED BENEFIT PENSION PLAN (Table 2b)

For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

| | 2011 | 2010 | Increase/(Decrease) Amount | Increase/ (Decrease) Percent |
|---|---------------------|---------------------|-------------------------------|------------------------------------|
| Employee Contributions | \$ 24,602 | \$ 13,396 | \$ 11,206 | 83.7% |
| Employer Contributions | 59,180 | 54,566 | 4,614 | 8.5% |
| Net Investment Income* | 286,726 | 195,587 | 91,139 | 46.6% |
| Net Securities Lending Income | 453 | 2,168 | (1,715) | -79.1% |
| Total Additions | 370,961 | 265,717 | 105,244 | 39.6% |
| * Net of Investment Expenses of \$3,387 and \$5,026 in 2011 and 2010, respectively. | | | | |
| Retirement Benefits | 110,415 | 98,110 | 12,305 | 12.5% |
| Death Benefits | 7,883 | 7,583 | 300 | 4.0% |
| Refund of Contributions | 1,980 | 1,219 | 761 | 62.4% |
| Administrative | 2,867 | 2,601 | 266 | 8.6% |
| Total Deductions | 123,145 | 109,513 | 13,592 | 12.4% |
| Net Increase in Plan Net Assets | 247,816 | 156,164 | 91,652 | 58.7% |
| Beginning Net Assets | 1,512,802 | 1,356,638 | 156,164 | 11.5% |
| Ending Net Assets | \$ 1,760,618 | \$ 1,512,802 | \$ 247,816 | 16.4% |

CHANGES IN PLAN NET ASSETS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2c)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

| | 2012 | 2011 | Increase/(Decrease) Amount | Increase/ (Decrease) Percent |
|---|-------------------|-------------------|-------------------------------|------------------------------------|
| Employee Contributions | \$ 14,995 | \$ 16,041 | \$ (1,046) | 6.5% |
| Employer Contributions | 25,834 | 17,146 | 8,688 | 50.7% |
| Net Investment Income/(loss)* | (5,150) | 21,808 | (26,958) | 123.6% |
| Net Securities Lending Income | 10 | 34 | (24) | 70.6% |
| Total Additions | 35,689 | 55,029 | (19,340) | 35.1% |
| * Net of Investment Expenses of \$547 and \$256 in 2012 and 2011, respectively. | | | | |
| Healthcare Insurance Premiums | 33,077 | 27,370 | 5,707 | 20.9% |
| Administrative | 268 | 216 | 52 | 24.1% |
| Total Deductions | 33,345 | 27,586 | 5,759 | 20.9% |
| Net Increase in Plan Net Assets | 2,344 | 27,443 | (25,099) | -91.5% |
| Beginning Net Assets | 135,454 | 108,011 | 27,443 | 25.4% |
| Ending Net Assets | \$ 137,798 | \$ 135,454 | \$ 2,344 | 1.7% |

CHANGES IN PLAN NET ASSETS FOR THE POSTEMPLOYMENT HEALTHCARE PLAN
(Table 2d)

For the Fiscal Years Ended June 30, 2011 and 2010 (In Thousands)

| | 2011 | 2010 | Increase/(Decrease) Amount | Increase/ (Decrease) Percent |
|---|-------------------|-------------------|-------------------------------|------------------------------------|
| Employee Contributions | \$ 16,041 | \$ 15,616 | \$ 226 | 3.4% |
| Employer Contributions | 17,146 | 17,027 | 119 | 0.7% |
| Net Investment Income* | 21,808 | 13,703 | 8,105 | 59.1% |
| Net Securities Lending Income | 34 | 149 | (115) | -77.2% |
| Total Additions | 55,029 | 46,695 | 8,335 | 17.9% |
| * Net of Investment Expenses of \$256 and \$345 in 2011 and 2010, respectively. | | | | |
| Healthcare Insurance Premiums | 27,370 | 24,066 | 3,304 | 13.7% |
| Administrative | 216 | 180 | 35 | 19.3% |
| Total Deductions | 27,586 | 24,247 | 3,339 | 13.8% |
| Net Increase in Plan Net Assets | 27,443 | 22,447 | 4,996 | 22.3% |
| Beginning Net Assets | 108,011 | 85,564 | 22,447 | 26.2% |
| Ending Net Assets | \$ 135,454 | \$ 108,011 | \$ 27,443 | 25.4% |

Management's Discussion and Analysis (Unaudited) (Continued)

Reserves

The System is required by the City of San José Municipal Code to establish various reserves in the System's net assets. The System's net assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan (which includes the 401(h) and 115 Trust). Within the Defined Benefit Pension Plan Retirement Fund there are three reserves: the General Reserve, Employee Contributions Reserve, and Supplemental Retiree Benefit Reserve. The Defined Benefit Pension Plan Cost-of-Living Fund and the Postemployment Healthcare Plan both have a General Reserve and Employee Contributions Reserve (see table on page 39 for a complete listing and year-end balances of the System's reserves).

The System's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses. Additionally, the appreciation in the fair value of investments is held in the unrealized gain/loss account, a component of the General Reserve.

The System's Fiduciary Responsibilities

The System's Board of Administration and management staff are fiduciaries of the defined benefit pension and other postemployment healthcare trust funds. Under the California Constitution and the San José Municipal Code, the assets can only be used for the exclusive benefit of plan participants and their beneficiaries, and defraying reasonable costs of administration.

Economic Factors and Rates Affecting Next Year

The System's most recent valuation as of June 30, 2011, was used to determine the annual contribution rates effective for payroll periods beginning on June 24, 2012, for fiscal year 2012-2013. The June 30, 2011 valuations include Board adopted actuarial assumption changes recommended by the System's actuary in the June 30, 2010 experience study presented on May 12, 2011. The June 30, 2011 valuations also included the Board adopted funding policy of setting the annual required contribution to be the greater of the dollar amount reported in the actuarial valuation and the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll for the fiscal year. On July 1, 2011, the City funded the fiscal year 2011-2012 annual required contribution dollar amount as reported in the June 30, 2011 valuations. See Notes 5 and 6 of the financial statements on pages 48 - 53 for a full listing of the actuarial assumption changes.

Defined Benefit Pension Plan

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As

of June 30, 2011, the System's most recent valuation, the funded status of the pension plan decreased from 69% to 65%. The decrease in the pension plan funded status was due primarily to actuarial assumption changes.

The June 30, 2011 valuation included a change in the expected rate of return from 7.95% to 7.50% and a change in the payroll wage inflation assumption from 3.90% to 3.25%. In addition, the Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at 0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees.

The June 30, 2011 valuation contains the Board adopted 30/20 layered amortization methodology which includes the level amortization of the unfunded liability as of June 30, 2009 over a closed period of 30 years from that date, and the amortization of subsequent gains and losses or assumption changes over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2011 valuation is 25.2 years.

In addition, the System's actuarial valuation uses a five year smoothing method for investment returns. This means that the current year's gains or losses in greater or less than the actuarially assumed rate of return, as calculated at year-end, are recognized over five years. The unfunded actuarial accrued liability of \$982 million, as of June 30, 2011, does not include the impact of approximately \$28 million of deferred investment losses primarily resulting from unfavorable investments returns in fiscal years 2008 and 2009. It is anticipated that future actuarial valuations will recognize the remaining deferred investment losses of approximately \$28 million as described above and the smoothing of any new gains or losses over a five year period.

Additionally, the System is exposed to general investment market risk. In a public pension plan context, this is the risk that the long-term rate of return earned on the Defined Benefit Pension Plan assets could be below the actuarially assumed rate of return, which is 7.50%, net of investment expenses. Underperforming the assumed rate of return would negatively impact the financial condition of the System and require an increase in the City's required contribution to the plan. The contribution rate impact from general market risk depends in large measure on how deep any future market downturn is and how long it lasts.

Contribution rates for fiscal year 2012-2013, as determined by the June 30, 2011 valuation included the impact of the continued effect of the layered 20-year closed amortization period, the decrease in the discount and wage inflation rates, the impact of decreases in covered payroll due to budget cuts, and the recognition of smoothed deferred investment losses.

The valuation for June 30, 2012 and beyond will include the impact of *The Sustainable Retirement Benefits and Compensation*

Management's Discussion and Analysis (Unaudited) (Continued)

Act (Pension Act) enacted by the voters of San Jose on June 5, 2012. The Pension Act amended the City Charter to change benefits for current employees, to establish different benefits for new employees and to place other limitations on benefits.

Section 1508-A of the Pension Act applicable to new employees was adopted on August 28, 2012 by San Jose City Council Ordinance No. 29120 to provide Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year to 2.0% per year, an increase from 55 years to 65 years of age for retirement eligibility at full benefits, a consumer price index driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase, a decrease in maximum benefit to 65% of final average salary from 75%, no survivor benefits for death after retirement unless the member elects a reduced benefit, pensionable compensation to be based on base salary only, rather than base compensation plus premium pays; members to contribute 50% of the total Normal Cost, any accrued unfunded actuarial liability and administrative costs of the System; year of service credit to require 2080 hours of work rather than 1730 hours of work and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the System. Additionally, various bargaining units representing members of the System have filed unfair labor practice charges with the California Public Employment Relations Board related to the Pension Act.

Additionally, the System's financial reporting will be impacted in fiscal year ending June 30, 2014 as a result of the implementation of Statement No. 67 of the Governmental Accounting Standards Board (GASB), *Financial Reporting for Pension Plan*. GASB Statement No. 67 will replace GASB 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*. This statement establishes standards of financial reporting and specifies the required approach to measuring the pension liability of employers. The statement relates to accounting and financial reporting and does not apply to how pension plans approach funding.

Postemployment Healthcare Plan

The System's fifth GASB Statement No. 43-compliant Other Postemployment Benefits (OPEB) valuation study as of June 30, 2011, was prepared by Cheiron, Inc., the System's actuary. A summary of the results is presented in Note 6 to the Financial Statements. Fiscal year ended June 30, 2012 was the third year of the Memorandum of Agreement (MOA) entered into by the bargaining units representing the System members and the City to increase the contribution rates for retiree health and dental benefits in order to phase-in to full

funding of the GASB Statement No. 43 annual required contributions over a five period. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Upon the end of the five year phase-in the City and active members' contributions for retiree medical benefits will be split evenly and the retiree dental benefits will be split in a ratio of 8 to 3 with the City contributing 8/11 of the total contribution. Fiscal year ending June 30, 2013, will mark the end of the five year phase-in and per the MOA will require the employees and City to contribute at the GASB Statement No. 43 contribution rate. As of the June 30, 2011 valuation the contribution rate determined by applying the GASB Statement No. 43 parameters for the City as a percentage of pay was 29.26% compared to 7.91% phase-in funded basis.

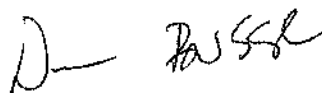
On June 24, 2011 a new Internal Revenue Code Section 115 trust was established by the San José City Council (Ordinance number 28914) outside of the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits in order to provide an alternative to the existing 401(h) account. Employer contributions to the new trust were made in fiscal year 2012. Employee contributions continue to be made into the 401(h) account. The City Council has requested advice from outside tax counsel on the tax treatment of employee contributions deposited into the 115 Trust prior to determining whether to direct employee contributions into the 115 Trust. Pursuant to the Municipal Code, the Board has been named as the Trustee of the 115 Trust. The Board has directed that no employee contributions be accepted into the 115 Trust pending further clarification of the tax treatment and refundability of employee contributions.

Requests for Information

This financial report is designed to provide the Board of Administration, Mayor and City Council, our membership, taxpayers, and investment managers with a general overview of the System's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Federated City Employees' Retirement System
1737 North First Street, Suite 580
San José, California 95112-4505

Respectfully Submitted,



Donna Busse
Acting Director

Basic Financial Statements

STATEMENTS OF PLAN NET ASSETS

June 30, 2012 and 2011 (In Thousands)

2012

| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total |
|--|---------------------------------|-----------------------------------|---------------------|
| Assets: | | | |
| Receivables: | | | |
| Employee contributions | \$ 1,659 | \$ 304 | \$ 1,963 |
| Employer contributions | 369 | 318 | 687 |
| Brokers and others | 1,611 | 117 | 1,728 |
| Accrued investment income | 3,076 | 221 | 3,297 |
| Total receivables | 6,715 | 960 | 7,675 |
| Investments, at fair value: | | | |
| Securities and other: | | | |
| Domestic fixed income | 153,150 | 2,756 | 165,906 |
| International fixed income | 2,013 | 167 | 2,180 |
| Collective short-term investments | 230,176 | 19,171 | 249,347 |
| Corporate convertible bonds | 47,294 | 3,940 | 51,234 |
| Pooled fixed income | 32,886 | 2,739 | 35,625 |
| Global equity | 326,054 | 22,157 | 353,211 |
| Pooled global equity | 451,236 | 37,583 | 488,819 |
| Private equity | 88,137 | 7,341 | 95,478 |
| Forward international currency contracts | 418 | 34 | 452 |
| Opportunistic investments | 77,427 | 6,449 | 83,876 |
| Real assets | 154,547 | 1,872 | 167,419 |
| Real estate | 86,649 | 7,216 | 93,865 |
| Total investments | 1,649,987 | 137,425 | 1,787,412 |
| TOTAL ASSETS | 1,656,702 | 138,385 | 1,795,087 |
| Liabilities: | | | |
| Payable to brokers | 4,089 | 295 | 4,384 |
| Other liabilities | 3,364 | 292 | 3,656 |
| TOTAL LIABILITIES | 7,453 | 587 | 8,040 |
| Net Assets Held In Trust For: | | | |
| Pension benefits | 1,649,249 | | 1,649,249 |
| Postemployment healthcare benefits | - | 137,798 | 137,798 |
| TOTAL NET ASSETS | \$ 1,649,249 | \$ 137,798 | \$ 1,787,047 |

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements (Continued)

STATEMENTS OF PLAN NET ASSETS (continued)

June 30, 2012 and 2011 (In Thousands)

2011

| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total |
|--|---------------------------------|-----------------------------------|---------------------|
| Assets: | | | |
| Receivables: | | | |
| Employee contributions | \$ 1,165 | \$ 842 | \$ 2,007 |
| Employer contributions | 11,731 | 1,211 | 12,942 |
| Brokers and others | 2,206 | 173 | 2,379 |
| Accrued investment income | 3,612 | 281 | 3,893 |
| Total receivables | 18,714 | 2,507 | 21,221 |
| Investments, at fair value: | | | |
| Securities and other: | | | |
| Domestic fixed income | 378,497 | 28,862 | 407,359 |
| International fixed income | 2,096 | 160 | 2,256 |
| Collective short-term investments | 33,206 | 3,532 | 35,738 |
| Corporate convertible bonds | 48,943 | 3,732 | 52,675 |
| Pooled fixed income | 19,912 | 1,518 | 21,430 |
| Global equity | 444,594 | 3,903 | 478,497 |
| Pooled global equity | 461,370 | 85,182 | 496,552 |
| Private equity | 86,079 | 6,564 | 92,643 |
| Forward international currency contracts | 84 | 6 | 90 |
| Opportunistic investments | 30,462 | 2,323 | 32,785 |
| Real assets | 155,126 | 11,829 | 166,955 |
| Real estate | 84,141 | 6,532 | 90,673 |
| Securities lending collateral investment pool | 150,265 | 11,677 | 161,942 |
| Total investments | 1,894,775 | 144,820 | 2,039,595 |
| TOTAL ASSETS | 1,913,489 | 147,327 | 2,060,816 |
| Liabilities: | | | |
| Payable to brokers | 1,304 | 101 | 1,405 |
| Securities lending collateral due to borrowers | 150,265 | 11,677 | 161,942 |
| Other liabilities | 1,302 | 95 | 1,397 |
| TOTAL LIABILITIES | 152,871 | 11,873 | 164,744 |
| Net Assets Held in Trust For: | | | |
| Pension benefits | 1,760,618 | | 1,760,618 |
| Postemployment healthcare benefits | - | 135,454 | 135,454 |
| TOTAL NET ASSETS | \$ 1,760,618 | \$ 135,454 | \$ 1,896,072 |

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements *(Continued)*

STATEMENTS OF CHANGES IN PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

2012

| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total |
|--|---------------------------------|-----------------------------------|---------------------|
| Additions: | | | |
| Contributions: | | | |
| Employee | \$ 10,555 | \$ 14,995 | \$ 25,550 |
| Employer | 87,082 | 25,834 | 112,916 |
| Total contributions | 97,637 | 40,829 | 138,466 |
| Investment income: | | | |
| Net depreciation in fair value of investments | (98,855) | (7,811) | (106,666) |
| Interest income | 27,026 | 2,031 | 29,057 |
| Dividend income | 9,350 | 1,138 | 10,488 |
| Net rental income | 520 | 39 | 559 |
| Less investment expense | (7,073) | (547) | (7,620) |
| Net investment loss before securities lending income | (69,032) | (5,150) | (74,182) |
| Securities lending income: | | | |
| Earnings | 88 | 7 | 95 |
| Rebates | 84 | 6 | 90 |
| Fees | (43) | (3) | (46) |
| Net securities lending income | 129 | 10 | 139 |
| Net investment loss | (68,903) | (5,140) | (74,043) |
| TOTAL ADDITIONS | 28,734 | 35,689 | 64,423 |
| Deductions: | | | |
| Retirement benefits | 126,001 | - | 126,001 |
| Healthcare insurance premiums | - | 33,077 | 33,077 |
| Death benefits | 8,601 | - | 8,601 |
| Refund of contributions | 2,195 | - | 2,195 |
| Administrative expenses and other | 3,306 | 268 | 3,574 |
| TOTAL DEDUCTIONS | 140,103 | 33,345 | 173,448 |
| NET INCREASE/(DECREASE) | (111,369) | 2,344 | (109,025) |
| Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits: | | | |
| BEGINNING OF YEAR | 1,760,618 | 135,454 | 1,896,072 |
| END OF YEAR | \$ 1,649,249 | \$ 137,798 | \$ 1,787,047 |

See accompanying notes to basic financial statements.

(Continued)

Basic Financial Statements (Continued)

STATEMENTS OF CHANGES IN PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2012 and 2011 (In Thousands)

2011

| | Defined Benefit Pension Plan | Postemployment Healthcare Plan | Total |
|--|---------------------------------|-----------------------------------|---------------------|
| Additions: | | | |
| Contributions: | | | |
| Employee | \$24,602 | \$16,041 | \$40,643 |
| Employer | 59,180 | 17,146 | 76,326 |
| Total contributions | 83,782 | 33,187 | 116,969 |
| Investment income: | | | |
| Net appreciation in fair value of investments | 252,848 | 19,238 | 272,086 |
| Interest income | 26,157 | 1,984 | 28,141 |
| Dividend income | 8,293 | 629 | 8,922 |
| Net rental income | 2,815 | 213 | 3,028 |
| Less investment expense | (3,387) | (256) | (3,643) |
| Net investment income before securities lending income | 286,726 | 21,808 | 308,534 |
| Securities lending income: | | | |
| Earnings | 520 | 39 | 559 |
| Rebates | 84 | 6 | 90 |
| Fees | (151) | (11) | (162) |
| Net securities lending income | 453 | 34 | 487 |
| Net investment income | 287,179 | 21,842 | 309,021 |
| TOTAL ADDITIONS | 370,961 | 55,029 | 425,990 |
| Deductions: | | | |
| Retirement benefits | 110,415 | | 110,415 |
| Healthcare insurance premiums | - | 27,370 | 27,370 |
| Death benefits | 7,883 | | 7,883 |
| Refund of contributions | 1,980 | | 1,980 |
| Administrative expenses and other | 2,867 | 216 | 3,083 |
| TOTAL DEDUCTIONS | 123,145 | 27,586 | 150,731 |
| NET INCREASE | 247,816 | 27,443 | 275,259 |
| Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits: | | | |
| BEGINNING OF YEAR | 1,512,802 | 109,011 | 1,620,813 |
| END OF YEAR | \$ 1,760,618 | \$ 135,454 | \$ 1,896,072 |

See accompanying notes to basic financial statements.

Notes to Basic Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

The following description of the City of San José Federated City Employees' Retirement System (System) is provided for financial reporting purposes only. Employees and members should refer to the City of San José Municipal Code for more complete information.

(a) General

The System, consisting of a single employer Defined Benefit Pension Plan and a Postemployment Healthcare Plan, was established in 1941 to provide retirement benefits for certain employees of the City of San José (City) and includes all provisions of San Jose Municipal Code Chapters 3.28, 3.44, and 3.52.

The Defined Benefit Pension Plan was established pursuant to Internal Revenue Code (IRC) Section 401(a) and is held and administered in the 1975 Federated City Employees' Retirement Plan (Pension Trust) and includes all provisions of San Jose Municipal Code Chapter 3.28.

The Postemployment Healthcare Plan is comprised of an IRC 401(h) plan and an IRC 115 trust and is held and administered in the 1975 Federated City Employees' Retirement Plan and the Federated City Employees' Healthcare Trust Fund, respectively, and includes all provisions of San Jose Municipal Code Chapters 3.28 and 3.52, respectively.

The Postemployment Healthcare Plan was established under Internal Revenue Code Section 401(h) and is an account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. As a 401(h) plan the healthcare plan benefits must be subordinate to the pension plan benefits. The medical benefits are considered subordinate if the cumulative actual contributions for medical benefits are no greater than 25% of actual contributions to both pension and medical benefits, ignoring contributions for past service benefit (normal cost only). The System's actuary performs periodic reviews and projections of the Internal Revenue Code 25% subordination test.

On June 24, 2011, a new Internal Revenue Code Section 115 trust was established by the San José City Council under the provisions of San Jose Municipal Code Chapter 3.52 (Ordinance number 28914) to provide an alternative to the existing 401(h) account within the Pension Trust for retiree healthcare benefits funding and for the payment of retiree healthcare benefits. Employer contributions to the new trust were made in fiscal year 2012. Employee contributions continue to be made into the 401(h) account. The City Council has requested advice from outside tax counsel on the tax treatment of employee contributions deposited into the 115 Trust prior to determining whether to direct employee contributions into the 115 Trust. Pursuant to the Municipal

Code, the Board has been named as the Trustee of the 115 Trust. The Board has directed that no employee contributions be accepted into the 115 Trust pending further clarification of the tax treatment and refundability of employee contributions.

On August 18, 2012, the System received a favorable tax determination letter from the Internal Revenue Service for the Pension Trust, which includes the Defined Benefit Pension Plan and the 401(h) portion of the Postemployment Healthcare Plan.

All full-time and eligible part-time employees of the City, except employees who are members of the City's Police and Fire Department Retirement Plan, are required to be members of the System.

The System is considered to be a part of the City's financial reporting entity and is included in the City's basic financial statements as a pension trust fund. The System is administered by the Director of Retirement, an employee of the City and by the Federated City Employees' Retirement System Board of Administration (Board of Administration). The contribution and benefit provisions and all other requirements are established by City ordinance. The System is responsible for all direct administrative costs, which are funded by investment earnings, except for certain support services, which are provided and funded directly by the City. The System is not subject to the provisions of the Employee Retirement Income Security Act of 1974.

Participants of the Postemployment Healthcare Plan are also participants of the Defined Benefit Pension Plan. As of June 30, 2012 and 2011, employee membership data related to the System was as follows:

| Defined Benefit Pension Plan: | 2012 | 2011 |
|---|--------------|--------------|
| Retirees and beneficiaries currently receiving benefits * | 3,688 | 3,430 |
| Terminated vested members not yet receiving benefits | 969 | 672 |
| Active members | 3,076 | 3,519 |
| Total | 7,733 | 7,621 |
| Postemployment Healthcare Plan: | 2012 | 2011 |
| Retirees and beneficiaries currently receiving benefits | 3,062 | 3,073 |
| Terminated vested members not yet receiving benefits | 111 | 86 |
| Active members | 3,076 | 3,519 |
| Total | 6,249 | 6,678 |

* The combined domestic relations orders are not included in the count above as their benefit payment is included in the retiree member count.

Notes to Basic Financial Statements (Continued)

NOTE 1 – DESCRIPTION OF THE PLAN (Continued)

(b) Pension Benefits

An employee with five or more years of service who reaches the normal retirement age of 55, or an employee of any age with 30 years of service, is entitled to annual pension benefits equal to 2.5% of final average annual salary for each year of service up to a maximum benefit of 75% of final compensation. Final compensation is the average annual salary during the highest 12 months of consecutive service, not to exceed 108% of compensation paid to the member during the second highest consecutive 12 month period, excluding the months used to calculate the highest 12 months. Final average salary excludes overtime pay and expense allowances. In addition, retirement benefits are adjusted for an annual cost-of-living allowance (COLA) of 3% per year.

If employees terminate employment and elect to receive a return of contributions, the accumulated plan benefits attributable to the City's contributions are forfeited; however, an employee's accumulated contribution plus earnings thereon is refunded. Refunds are paid out on a lump-sum basis. The forfeited amount of the City's contributions remains in the System. In the case of reciprocity, a member with less than five years of service may leave contributions in the System.

Effective December 9, 1994, the System entered into an agreement with the California Public Employees' Retirement System (PERS) that extends reciprocal retirement benefits to members. In certain situations, this agreement results in improved retirement benefits for members who move from one eligible retirement system to another.

(c) Death Benefits

If an employee's death before retirement is service related, or is non-service related (and the employee has at least five years of service), a surviving spouse or domestic partner (at the time of retirement and time of death) is paid an annual annuity benefit equal to 2.5% of final compensation multiplied by the number of years of service (minimum of 40% and maximum of 75% of final compensation) until he or she remarries or dies. Deferred vested members are not eligible for the 40% minimum. The allowance will continue even if the spouse or domestic partner remarries if the member was at least 55 years old and had at least 20 years of service. If there is no surviving spouse or domestic partner, unmarried children up to 18 years of age, or up to 22 years of age if a full-time student, are entitled to a benefit payment based on the spousal or domestic partner benefit such that no one child shall receive more than 25% of the spousal or domestic partner benefit and the sum for all eligible children shall not exceed 75% of the spousal or domestic partner benefit. If no family members are eligible, the employee's contributions plus one month's salary for each year of service up to a maximum of six years of service are returned to the employee's beneficiary or estate.

If an employee dies after retirement, \$500 is paid to the employee's beneficiary or estate. In addition, the employee's eligible surviving spouse or eligible domestic partner continues to receive, for life, 50% of the employee's annual pension benefit as defined above. If there is no surviving spouse or domestic partner, 25% of the spouse or domestic partner's benefit payment is made to each eligible child as defined above, but the maximum benefit to children cannot exceed 75% of the benefit that would have been paid to a surviving spouse or domestic partner. An optional retirement allowance is available.

(d) Disability Benefits

If an employee suffers a service related disability before retirement, the annual disability benefit paid is 40% of the final average salary. For members with more than 16 years of service, the annual disability benefit is the final average salary multiplied by 40% plus the final average salary multiplied by 2.5% for each year over 16. The maximum benefit is 75% of the final average salary.

If an employee with at least five years of service suffers a non-service related disability, the annual disability benefit is equal to the greater of: (1) 2.5% of final compensation multiplied by the number of years of service, up to a maximum of 30 years; or (2) 40% of final compensation. The benefit is reduced by 0.5% of final compensation for each year an employee's age is under 55.

If an employee was hired on or after September 1, 1998, the benefit is calculated using the following formula: 20% of final compensation, plus 2% for each year of service in excess of six but less than 16, plus 2.5% of final compensation for years of service in excess of 16.

For recipients of a disability retirement allowance who are under 55 years of age, the amount of the allowance is subject to reduction for outside employment as set forth in the San Jose Municipal Code.

(e) Postemployment Healthcare Benefits

The City of San José Municipal Code provides that retired employees with 15 or more years of service, their survivors, or those retired employees who are receiving at least 37.5% of final compensation are entitled to payment of 100% of the lowest priced medical insurance plan available to an active System City employee. Members and eligible survivors must pay for the difference between the amount of the premium for their selected plan and the portion paid by the System. However, the System pays the entire premium cost for dental insurance coverage if the member retires directly from City service.

Notes to Basic Financial Statements *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The System is reported in a pension trust fund in the City of San José's basic financial statements. The financial statements of the System present only the financial activities of the System and are not intended to present the financial position and changes in financial position of the City of San José in conformity with accounting principles generally accepted in the United States of America (GAAP).

(b) Basis of Accounting

The financial statements of the System are prepared on the accrual basis of accounting. Contributions are recognized as additions when due pursuant to formal commitments as well as statutory and contractual commitments (at the end of the pay period). Benefits and refunds of contributions are recognized when due and payable under the provisions of the plan. Activities of the Defined Benefit Pension Plan and the Postemployment Healthcare Plan are accounted for separately. It is required by the municipal code that transactions of the Defined Benefit Pension Plan be accounted for in two funds: a Retirement Fund and a Cost-of-Living Fund.

The preparation of the financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

(c) Investments

The City of San José Municipal Code Section 3.28.355 delegates authority to the Board of Administration to reinvest the monies of the System as provided in Section 3.28.355. The Board has adopted detailed investment guidelines consistent with conditions and limitations set forth in Section 3.28.355.

On December 15, 2011 the Board accepted the asset-liability study prepared by staff and approved a new asset allocation increasing the level of allocation to absolute return strategies and real assets and reducing the allocation to equity and fixed income. The new asset allocation was prepared to align the expected returns of the System to the liabilities as determined in the June 30, 2011 valuations. The System's investment asset allocation is as follows:

Equity and Real Estate – Target of 45%
Fixed Income – Target of 10%
Absolute Return Strategies – Target 25%
Real Assets – Target 20%

The System's prior asset allocation was as follows.

Global Equity – Target of 49%, minimum 43% and

maximum 55% of the fair value of the aggregate portfolio.

Fixed Income – Target of 20%, minimum 15% and maximum 25% of the fair value of the aggregate portfolio.

Alternatives – Target of 31%, minimum 26% and maximum 36% of the fair value of the aggregate portfolio

Real Estate – Target 5%

Real Assets – Target 10%

Hedge Funds – Target 5%

Private Equity – Target 6%

Opportunistic – Target 5%

The System's investment policy authorizes the System to invest in global equity; global fixed income; alternatives including real estate, real assets (infrastructure, timber, natural resources, and commodities), hedge funds (absolute return), private equity, and opportunistic assets; short-term investments; and securities lending. Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market, such as private equity, commingled real estate funds and certain pooled fund investments, are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Derivative investments are reported at fair value. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. The fair value of the separate real estate properties are based on annual independent appraisals. Per the System's Real Estate Investment Guidelines, mortgage loans at fair value on the separate real estate properties are not allowed to exceed 50% of the property's fair value. As of June 30, 2011, the System held a warehouse located in Northern California with no outstanding mortgage loans. On June 26, 2012, the System sold the Northern California warehouse.

Purchases and sales of securities are reflected on the trade date. Investment income is recognized as earned. Rental income is recognized as earned, net of expenses.

Notes to Basic Financial Statements (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Plan Net Assets Held in Trust for Pension and Postemployment Healthcare Benefits

The System is required by the City of San José Municipal Code to establish various reserves in the plan net assets. The Plan Net Assets are allocated between the Defined Benefit Pension Plan (which includes the Retirement Fund and the Cost-of-Living Fund) and the Postemployment Healthcare Plan, which includes the 401(h) and 115 Trust. As of June 30, 2012 and 2011 the net assets, totaling \$1,787,047,000 and \$1,896,072,000, respectively, are allocated as follows (In Thousands):

| | Retirement Fund | Cost-of-Living Fund | Defined Benefit Pension Plan | Postemployment Healthcare Plan 401(h) | Postemployment Healthcare (115) | Postemployment Healthcare Plan | Total |
|------------------------------|---------------------|---------------------|------------------------------|---------------------------------------|---------------------------------|--------------------------------|---------------------|
| June 30, 2012: | | | | | | | |
| Employee contributions | \$ 183,840 | \$ 40,331 | \$ 224,171 | \$ 46,270 | | \$ 46,270 | \$ 270,441 |
| Supplemental retiree benefit | 43,109 | - | 43,109 | - | | - | 86,218 |
| General reserve | 980,883 | 401,116 | 1,381,989 | 69,707 | 21,821 | 91,528 | 1,473,497 |
| TOTAL | \$ 1,207,802 | \$ 441,447 | \$ 1,649,249 | \$ 115,977 | \$ 21,821 | \$ 137,798 | \$ 1,787,047 |
| June 30, 2011: | | | | | | | |
| Employee contributions | \$ 192,822 | \$ 41,739 | \$ 234,561 | \$ 32,719 | | \$ 32,719 | \$ 277,280 |
| Supplemental retiree benefit | 30,677 | - | 30,677 | - | | - | 61,354 |
| General reserve | 1,067,986 | 427,394 | 1,495,380 | 102,735 | | 102,735 | 1,598,115 |
| TOTAL | \$ 1,291,485 | \$ 469,133 | \$ 1,760,518 | \$ 135,454 | | \$ 135,454 | \$ 1,896,072 |

Employee Contributions Reserve represents the total accumulated employee contributions of current active and deferred members plus credited interest. The reserve is accounted for separately due to the possibility of a return of accumulated employee contributions, plus credited interest, to the member upon separation from City employment. Terminated members returns of contributions are paid from the Defined Benefit Pension Plan only.

Supplemental Retiree Benefit Reserve (SRBR) is a reserve that represents funds required by statute to be set aside from the Retirement Fund's net investment earnings to provide supplemental benefits to eligible retirees and beneficiaries. The reserve represents the accumulation of 10% of total accumulated excess earnings of the Retirement Fund plus credited interest on the reserve balance at the lesser of the Plan's actual rate of return or the actuarial rate of return for the fiscal year, but never less than 0%, minus distributions to eligible retirees and beneficiaries from the reserve. Transfer amounts to the SRBR have been prepared by the System's

actuary from the fiscal year ended June 30, 2009 onward. Interest on the SRBR balance is calculated and transferred at the end of the fiscal year. Excess earnings transfers are computed based on audited financial statements and if applicable the transfer is made effective on the first day of the next fiscal year by Board Resolution.

The System's actuary, Cheiron, prepared the excess earnings and SRBR primary interest amounts based on the audited June 30, 2011 and 2010 financial statements. Cheiron prepared and the Board adopted and declared excess earnings transfer amounts of \$12.53 million and \$6.95 million from the pension general reserve to the SRBR effective July 1, 2011 and 2010, respectively. In addition, Cheiron computed SRBR distribution amounts in accordance with Board policy of approximately \$6.6 million and \$1.60 million to eligible retirees and beneficiaries as per San José Municipal Code for fiscal years ended June 30, 2011 and 2010, respectively, based on excess earnings transfers and interest credits. However, due to San Jose City Council resolution number

Notes to Basic Financial Statements (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

75635, adopted on November 16, 2010 and amended in resolutions 76204 and 76235, distribution of funds from the SRBR were suspended for fiscal years 2012 and 2011.

General Reserve is a reserve that represents net earnings resulting from interest earnings, realized and unrealized investment gains and losses. It also represents an accumulation of funds necessary to pay all accumulated vested retirement obligations.

NOTE 3 – INVESTMENTS

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, foreign currency risk, and concentration of credit risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed income investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest-sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, and other general interest rate conditions. Certain fixed income investments have call provisions that could result in shorter maturity periods. As of June 30, 2012, \$12,215,000 of bank loan securities were floating rate securities tied to the one and three month London Interbank Offered Rate (LIBOR). As of

June 30, 2011, \$23,145,000 of bank loan securities were floating rate securities tied to the one and three month LIBOR.

The System also had exposure to interest rate risk on its fully collateralized infrastructure swaps. The System invested in infrastructure swaps with a notional amount of \$74,041,000 at June 30, 2012, in which it receives the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 50 to 55 basis points. The System also invested in commodities swaps with a notional amount of \$226,788,000 at June 30, 2012, in which it receives the total return United States three month treasury bill rate plus 10 to 12 basis points. As of June 30, 2011, the System invested in infrastructure swaps with a notional amount of \$37,408,000 in which it received the total return S&P Global Infrastructure Index, net of the 3-month LIBOR plus 55 basis points. The System does not have a policy regarding interest rate risk, however, the System does settle swap activity on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk.

The following tables provide the segmented time distribution for fixed income investments based on expected maturity (in months and years) as of June 30, 2012 and 2011, concerning the fair value of investments and interest rate risk:

INVESTMENT MATURITIES AT FAIR VALUE AS OF JUNE 30, 2012

(Dollars in Thousands)

| | Maturities | | | | | | Total Fair Value | Cost |
|--|-----------------|-----------------|-------------------|-------------------|------------------|--------------------|------------------|-------------------|
| | 0-3 Months | 3-6 Months | 6 Months - 1 Year | 1-5 Years | 5-10 Years | More Than 10 Years | | |
| Fixed Income | | | | | | | | |
| Domestic fixed income | | | | | | | | |
| Asset backed securities | \$ 2,025 | \$ - | \$ - | \$ 2,020 | \$ - | \$ - | \$ 4,045 | \$ 6,042 |
| Bank loans | | 1,142 | | 11,375 | | | 12,517 | 11,036 |
| Corporate bonds | | 636 | | 15,073 | 5,367 | 3,799 | 24,875 | 20,602 |
| TIPS | | | | 82,931 | 41,538 | | 124,469 | 120,522 |
| Total Domestic fixed income | 2,025 | 1,778 | | 111,399 | 46,905 | 3,799 | 165,906 | 158,202 |
| International fixed income | | | | 2,176 | 4 | | 2,180 | 1,987 |
| Collective short-term investments | 1,987 | | 260 | | | 247,170 | 249,347 | 249,701 |
| Corporate convertible bonds | | | 4,369 | 32,015 | 3,601 | 11,249 | 51,234 | 50,560 |
| Pooled fixed income | | | | | 2,672 | 32,953 | 35,625 | 29,216 |
| TOTAL FIXED INCOME | \$ 3,942 | \$ 1,778 | \$ 4,629 | \$ 145,590 | \$ 53,182 | \$ 295,171 | \$504,292 | \$ 489,666 |

Notes to Basic Financial Statements (Continued)

NOTE 3 – INVESTMENTS (Continued)

INVESTMENT MATURITIES AT FAIR VALUE AS OF JUNE 30, 2011

(Dollars in Thousands)

| | Maturities | | | | | | Total Fair Value | Cost |
|-----------------------------------|------------|------------|-------------------|-----------|------------|--------------------|------------------|-----------|
| | 0-3 Months | 3-6 Months | 6 Months - 1 Year | 1-5 Years | 5-10 Years | More Than 10 Years | | |
| Fixed Income | | | | | | | | |
| Domestic fixed income | | | | | | | | |
| Asset backed securities | \$ - | \$ - | \$ - | \$ 960 | \$ - | \$ 408 | \$ 1,368 | \$ 1,059 |
| Bank loans | - | - | 1,635 | 21,595 | 1,103 | - | 24,333 | 21,684 |
| Corporate bonds | - | 1,122 | - | 19,751 | 15,412 | 3,534 | 39,819 | 34,249 |
| FHLMC | - | - | 2,179 | 6,104 | - | - | 8,283 | 8,155 |
| FNMA | - | - | - | 7,290 | - | - | 7,290 | 7,125 |
| Other U.S. Government agency | - | 3,341 | 1,519 | - | - | - | 4,860 | 5,057 |
| TIPS | - | - | - | 83,297 | 85,061 | 28,656 | 197,014 | 179,921 |
| U.S. Treasury | - | - | 19,085 | 55,934 | 49,873 | - | 124,892 | 120,365 |
| Total Domestic fixed income | - | 4,463 | 24,418 | 194,931 | 150,949 | 32,598 | 407,359 | 377,615 |
| International Fixed Income | | | | | | | | |
| Collective short-term investments | 35,738 | - | - | - | - | - | 35,738 | 35,774 |
| Corporate convertible bonds | - | - | 3,244 | 38,330 | 4,330 | 6,771 | 52,675 | 47,883 |
| Pooled fixed income | - | - | - | - | - | 21,430 | 21,430 | 19,500 |
| TOTAL FIXED INCOME | \$35,738 | \$4,463 | \$27,662 | \$233,826 | \$156,418 | \$61,357 | \$519,458 | \$482,637 |

Custodial Credit Risk – Custodial credit risk is the risk that the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if that outside party fails. The System does not have a policy regarding custodial credit risk. As of June 30, 2012 and 2011, all of the System's investments, excluding invested securities lending collateral, are held in the System's name, and/or not exposed to custodial credit risk. Securities lending collateral is invested in the lending agent's investment fund (see Note 4 – Securities Lending Program).

Credit Quality Risk – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. The System's investment policy dictates that assets shall generally be invested in investment grade, marketable, fixed-income securities. Domestic fixed income investment grade shall be defined as being rated Baa/BBB or better by Moody's Investors Service (Moody's) or Standard & Poor's Corporation (S&P). "Yankee" bonds issued by foreign countries and denominated in U.S. dollars are

allowed so long as they are rated Baa/BBB or better by Moody's or S&P. If a security is not rated by S&P or Moody's, the equivalent rating determined by the investment manager's research department will be used. Should a current holding fall below this standard, the manager shall notify the System of the downgrade and confer with the System staff as to whether the security will continue to be held or disposed. Up to 10% investment in BB or B securities will be permitted with written authorization of the Board. The investment managers employed to manage fixed-income securities will have discretion in the day-to-day management of the funds under their control.

The System may hedge against the possible adverse effects of currency fluctuations on the System's portfolio of international fixed income obligations when it is considered appropriate. This is typically achieved using forward currency contracts. Short-term investments may consist of commercial paper rated at least A1 or P1, repurchase agreements, short-term U.S. securities, and other money market investments.

On August 5, 2011, S&P lowered its long-term credit rating on debt of the U.S. government from AAA to AA+. That

Notes to Basic Financial Statements *(Continued)*

NOTE 3 – INVESTMENTS *(Continued)*

action affected S&P's view of U.S. public finance debt instruments that are directly or indirectly backed by the U.S. As a result, on August 8, 2011, S&P lowered its long-term credit ratings of U.S. government-sponsored enterprises and public debt issues that have credit enhancement guarantees by those government-sponsored enterprises to AA+. These credit downgrades relate to the credit risk associated with the System's investments in U.S. Treasury securities, U.S. government agency securities, U.S. government bonds, and U.S. government mortgage-backed securities.

RATINGS OF FIXED INCOME INVESTMENTS as of June 30, 2012 (Dollars in Thousands)

| S&P quality rating | Fair Value | Fair Value as a % of Total Fixed Income |
|--------------------------|-------------------|---|
| AAA | \$ 2,696 | 0.7% |
| A | 8,844 | 2.3% |
| BBB | 15,559 | 4.1% |
| BB | 15,186 | 4.0% |
| B | 10,083 | 2.6% |
| CCC & Below | 1,718 | 0.5% |
| Not Rated | 325,736 | 85.8% |
| TOTAL | \$ 379,822 | 100.0% |

The following table provides information as of June 30, 2012 and 2011 concerning credit risk. Investments issued or explicitly guaranteed by the U.S. government of \$124,470,000 and \$321,406,000 as of June 30, 2012 and 2011, respectively, are not considered to have credit risk and are excluded from the tables below.

RATINGS OF FIXED INCOME INVESTMENTS as of June 30, 2011 (Dollars in Thousands)

| S&P quality rating | Fair Value | Fair Value as a % of Total Fixed Income |
|--------------------------|-------------------|---|
| AAA | \$ 5,927 | 8.0% |
| AA | 874 | 0.4% |
| A | 9,827 | 5.0% |
| BBB | 21,190 | 10.7% |
| BB | 32,876 | 16.6% |
| B | 22,768 | 11.5% |
| CCC & Below | 2,811 | 1.4% |
| Not Rated | 101,779 | 51.4% |
| TOTAL | \$ 198,052 | 100.0% |

The following tables provide information as of June 30, 2012 and 2011, concerning the fair value of investments and foreign currency risk.

FOREIGN CURRENCY RISK ANALYSIS as of June 30, 2012 (Dollars in Thousands)

| Currency Name | Cash | Private Equity | Equity | Fixed Income | Pending Foreign Currency Exchanges | Total Exposure |
|------------------------|-----------------|-------------------|-------------------|------------------|--|-------------------|
| Australian dollar | \$ 19 | \$ - | \$ 10,014 | \$ - | \$ 39 | \$ 10,072 |
| British pound sterling | 685 | - | 43,257 | - | 82 | 44,024 |
| Canadian dollar | (26) | - | 5,757 | - | 31 | 5,762 |
| Danish krone | 245 | - | 3,203 | - | - | 3,448 |
| Euro currency | 640 | 9,252 | 36,405 | 5,016 | 285 | 51,598 |
| Hong Kong dollar | 93 | - | 4,526 | 125 | - | 4,744 |
| Israeli shekel | 2 | - | 384 | - | - | 386 |
| Japanese yen | 405 | - | 38,855 | 5,536 | (31) | 44,765 |
| New Taiwan dollar | - | - | - | - | 11 | 11 |
| Norwegian krone | 91 | - | 4,371 | - | 43 | 4,505 |
| Polish zloty | - | - | - | - | - | - |
| Singapore dollar | 30 | - | 3,389 | 1,835 | - | 5,254 |
| Swedish krona | 114 | - | 4,594 | 1,100 | (8) | 5,800 |
| Swiss franc | 236 | - | 15,536 | - | - | 15,772 |
| Turkish lira | 1 | - | - | - | - | 1 |
| TOTAL | \$ 2,535 | \$ 9,252 | \$ 170,291 | \$ 13,612 | \$ 452 | \$ 196,142 |

Notes to Basic Financial Statements (Continued)

NOTE 3 – INVESTMENTS (Continued)

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. To mitigate this risk, the System's

investment policy permits individual investment managers to defensively hedge currency to mitigate the impact of currency fluctuation on the underlying asset value.

FOREIGN CURRENCY RISK ANALYSIS

as of June 30, 2011 (Dollars in Thousands)

| Currency Name | Cash | Private Equity | Equity | Fixed income | Pending Foreign Currency Exchanges | Total Exposure |
|------------------------|---------------|-----------------|-------------------|-----------------|------------------------------------|-------------------|
| Australian dollar | \$ 25 | \$ - | \$ 12,131 | \$ - | \$ - | \$ 12,156 |
| British pound sterling | 364 | - | 41,929 | 2,739 | 100 | 45,132 |
| Canadian dollar | 7 | - | 4,308 | - | 21 | 4,336 |
| Danish krone | - | - | 3,979 | - | - | 3,979 |
| Euro currency | 63 | 8,774 | 47,886 | 3,206 | (5) | 59,924 |
| Hong Kong dollar | 5 | - | 4,234 | 440 | 3 | 4,682 |
| Indian rupee | - | - | - | - | (3) | (3) |
| Indonesian rupiah | - | - | - | 107 | - | 107 |
| Japanese yen | 331 | - | 41,991 | 3,004 | (40) | 45,286 |
| New Taiwan dollar | - | - | - | - | 4 | 4 |
| Norwegian krone | 1 | - | 3,904 | - | - | 3,905 |
| Singapore dollar | - | - | 2,905 | - | - | 2,905 |
| South Korean won | - | - | - | - | (3) | (3) |
| Swedish krona | 21 | - | 5,746 | - | 13 | 5,780 |
| Swiss franc | - | - | 19,242 | - | - | 19,242 |
| TOTAL | \$ 817 | \$ 8,774 | \$ 188,255 | \$ 9,496 | \$ 90 | \$ 207,432 |

Concentration of Credit Risk – The System's investment policy limits investment managers to no more than 10% of the System's assets under their management to be invested in securities of any single issuer with exception of the U.S. Government and its agencies. As of June 30, 2012 and 2011 the System did not hold investments in any one issuer, excluding investments issued by or explicitly guaranteed by the U.S. Government, that represented five percent or more of the total System net assets.

Derivatives – The System's investment policy allows for investments in derivative instruments that comply with the System's basic objective of achieving the highest return on investment funds, consistent with safety, and in accordance with accepted investment practices. Due to the level of volatility associated with certain derivative investments in general, the System specifically prohibits investment managers from using derivative or synthetic securities that expose the System to potentially high price volatility or are leveraged, or whose marketability may become severely

limited. Derivative investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price on the last business day of the fiscal year at current exchange rates, if applicable. Investments that do not have an established market are reported at estimated fair value based on the most recently available investor reports or audited financial statements issued by the manager of those funds. The fund manager provides an estimated unrealized gain/loss of the fund based on the most recently available audited financial statements and other fund information. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. As a result, futures have no fair value as of June 30, 2012 or 2011. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period.

Notes to Basic Financial Statements (Continued)

NOTE 3 – INVESTMENTS (Continued)

The fair values and notational amounts of derivative instruments outstanding as of June 30, 2012 and 2011, classified by type, and the changes in fair value of such derivative instruments for the years then ended as reported in the 2012 and 2011 financial statements are as follows (In Thousands):

DERIVATIVE INSTRUMENTS

as of June 30, 2012 (Dollars In Thousands)

| Investment Derivative Instruments | Classification | Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2012 | | Fair Value at June 30, 2012 | | Notional Amount/ Shares |
|-------------------------------------|-------------------|--|--|-----------------------------|--|-------------------------|
| | | Amount | Classification | Amount | | |
| Total Return Swaps | Investment Income | \$ (7,849) | Real Assets | \$ 13,552 | | 300,829 |
| Foreign Currency Forwards | Investment Income | (42) | Foreign Currency Contracts, net | 445 | | 46,207 |
| Futures Options Bought/Written | Investment Income | (8,951) | Fixed Income - collective short-term investments | | | 38,650 |
| Rights/Warrants | Investment Income | 99 | Global equity | 39 | | 22 |
| Total Derivative Instruments | | \$ (13,122) | | \$ 14,036 | | |

DERIVATIVE INSTRUMENTS

as of June 30, 2011 (Dollars In Thousands)

| Investment Derivative Instruments | Classification | Net Appreciation/(Depreciation) in Fair Value of Investments through June 30, 2011 | | Fair Value at June 30, 2011 | | Notional Amount/ Shares |
|-------------------------------------|-------------------|--|--|-----------------------------|--|-------------------------|
| | | Amount | Classification | Amount | | |
| Total Return Swaps | Investment Income | \$ 12,781 | Real Assets | \$ 1,269 | | \$37,408 |
| Foreign Currency Forwards | Investment Income | (1,384) | Foreign Currency Contracts, net | 90 | | - |
| Futures Options Bought/Written | Investment Income | 597 | Fixed Income - collective short-term investments | | | - |
| Rights | Investment Income | 912 | Global equity | 2 | | 279,280 |
| Total Derivative Instruments | | \$ 13,206 | | \$ 1,361 | | |

Notes to Basic Financial Statements (Continued)

NOTE 3 – INVESTMENTS (Continued)

Derivative investments are subject to certain types of risks, including counterparty credit risk (non-exchange traded), interest rate risk, and foreign currency risk. The following describes the risks applicable to the investment derivative instruments that are reported as of June 30, 2012 and 2011:

Counterparty Credit Risk – The System is exposed to credit risk on derivative instruments that are in asset positions and non-exchange traded. As of June 30, 2012, the System entered into infrastructure and commodity swaps with notional amounts of \$74,041,000 and \$226,788,000, respectively, held by counterparties with S&P ratings of A. The System's investments in forward currency contracts bear counterparty credit risk in that parties to the contracts may fail to perform according to the terms of the contract. As of June 30, 2012, total commitments in forward currency contracts to purchase and sell international currencies were \$46,207,000 and \$46,207,000 respectively, with fair values of \$46,424,000 and \$45,979,000, respectively, held by counterparties with S&P rating of A and above. As of June 30, 2011, the System entered into an infrastructure swap with a notional value of \$37,408,000 held by a counterparty with an A+ rating. As of June 30, 2011, total commitments in forward currency contracts to purchase and sell international currencies were \$26,265,000 and \$26,265,000 respectively, with fair values of \$26,244,000 and \$26,154,000, respectively, held by counterparties with S&P rating of at least AA-.

Interest Rate Risk – The System had exposure to interest rate risk on its fully collateralized commodity and infrastructure swaps. The fair values of the commodity swaps were marked-to-market daily based on their applicable indices, net values are adjusted with unrealized gains and losses and are collateralized to minimize counterparty risk. As of June 30, 2012, the System invested in infrastructure and commodity swaps with notional amounts of \$74,041,000 and \$226,788,000, respectively. The System receives the total return S&P Global Infrastructure Index, net of the 3-LIBOR plus 50 to 55 basis points. The System also receives the total return United States three month Treasury bill rate plus 10 to 12 basis points for the commodities swaps. The infrastructure swaps were executed in December 2011 and April 2012 and mature in December 2012 and April 2011 with a quarterly rate reset frequency. The commodity swaps were executed in June 2012 and matured in August 2012 with a monthly rate reset frequency. The System does not have a policy regarding interest rate risk, however, the System does settle on a transaction plus one day basis (T+1), therefore limiting the System's exposure to counterparty risk.

As of June 30, 2011, the System invested in an infrastructure swap with a notional amount of approximately \$37,408,000 in which it received the total return S&P Global

Infrastructure Index, net of the 3-month LIBOR plus 55 basis points. The System executed the infrastructure swap in April 2011, which matured in April 2012 with a quarterly rate reset frequency. As of June 30, 2012 and 2011, the System's derivative investments had maturity dates of less than one year.

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of underlying investments. To mitigate this risk, the System's investment policy permits individual investment managers to mitigate the impact of currency fluctuation on the underlying asset value. The System's investment managers enter into international forward currency contracts, which are commitments to purchase or sell stated amounts of international currency. The System utilizes these contracts to control exposure and facilitate the settlement of international security purchase and sale transactions. At June 30, 2012 and 2011 the System's net position in these contracts is recorded at fair value as international currency contract investments. The fair values of international currency contracts are determined by quoted currency prices from national exchanges. The System's commitments relating to forward currency contracts are settled on a net basis.

The following tables provide information as of June 30, 2012 and 2011, concerning the fair value of forward currency contracts and foreign currency risk:

FAIR VALUE OF FORWARD CURRENCY CONTRACTS AND FOREIGN CURRENCY RISK

as of June 30, 2012 (in Thousands):

| Currency Name | 2012 | |
|------------------------|------------------------------------|--------------|
| | Pending Foreign Currency Exchanges | Rights |
| Australian dollar | \$ 39 | \$ - |
| British pound sterling | 82 | - |
| Canadian dollar | 32 | - |
| Euro currency | 279 | 39 |
| Japanese yen | (31) | - |
| New Taiwan dollar | 11 | - |
| Norwegian krone | 41 | - |
| Swedish krona | (8) | - |
| TOTAL | \$ 445 | \$ 39 |

Notes to Basic Financial Statements (Continued)

NOTE 3 – INVESTMENTS (Continued)

FAIR VALUE OF FORWARD CURRENCY CONTRACTS AND FOREIGN CURRENCY RISK as of June 30, 2011 (In Thousands):

| Currency Name | 2011 | |
|------------------------|------------------------------------|-------------|
| | Pending Foreign Currency Exchanges | Rights |
| Australian dollar | \$ - | \$ 2 |
| British pound sterling | 100 | - |
| Canadian dollar | 21 | - |
| Euro currency | (5) | - |
| Hong Kong dollar | 3 | - |
| Indian rupee | (3) | - |
| Japanese yen | (40) | - |
| New Taiwan dollar | 4 | - |
| South Korean won | (3) | - |
| Swedish krona | 13 | - |
| TOTAL | \$ 90 | \$ 2 |

Northern Trust Company was responsible for replacement of the lent securities with other securities of the same issuer, class and denomination, or if such securities were not available on the open market, the Northern Trust Company was required to credit the System's account with the market value of such unreturned loaned securities if the lent securities were not returned by the borrower. All securities loan agreements could be terminated on demand within a period specified in each agreement by either the System or borrowers.

Securities lending collateral represents investments purchased with cash collateral, as well as securities collateral that may not be pledged or sold without a default by the borrower. Securities lending collateralized with securities that cannot be pledged or sold without borrower default are not reported as assets and liabilities in the statement of net assets. The System does not match the maturities of investments made with cash collateral with the securities on loan.

The System authorized The Northern Trust Company to invest and reinvest cash collateral in Northern Trust's pooled investment vehicle, which must have a weighted average life of 60 days or less. Securities with maturities of 13 months or more must have a rating of A or better. Securities with maturities of less than 13 months are rated at least P-3. As of June 30, 2011, the size of the cash collateral pooled vehicle was \$27.8 billion and the weighted average life was 21 days. The cash collateral investments included time deposits (12% of the pool), repurchase agreements (22%), asset backed securities (4%), certificates of deposit (20%), variable rate securities (9%), and commercial paper and other bank notes (33%).

NOTE 4 – SECURITIES LENDING PROGRAM

The San José municipal code and the investment policy adopted by the Board permit the use of a securities lending program with its principal custodian bank. The System does not have a threshold for securities lending activity. The investment policy requires that loan maturities cannot exceed one year, and no more than 15% of the portfolio can be lent longer than six months. The System had a custodial agreement with the Northern Trust Company, which authorized the Northern Trust Company to lend securities in the System's investment portfolio under such terms and conditions as the Northern Trust Company deemed advisable and to permit the lent securities to be transferred into the name of the borrowers. As of August 15, 2011, the System exited the Northern Trust securities lending program.

While in the Northern Trust securities lending program the System received a fee from the borrower for the use of the lent securities. The System had no exposure to borrower credit risk related to the securities lending transactions as the

The loaned securities as of June 30, 2011 consisted of U.S. Treasury securities, U.S. government agency securities, domestic corporate bonds, domestic equity securities, and international equity securities. In return, the System received collateral in the form of cash or securities equal to 102% for U.S. securities and 105% for non-U.S. securities of the market value of transferred securities plus accrued interest for reinvestment.

As of June 30, 2011, the underlying securities loaned by the System as a whole amounted to approximately \$162,705,000. The cash collateral and the non-cash collateral totaled \$161,942,000 and \$4,345,000, respectively. The System was exposed to investment risk including the possible loss of principal value in the cash collateral pool due to the fluctuation in the market value of the assets held by the cash collateral pool. As of June 30, 2011, the net asset value (NAV) of the cash collateral pool was 100% based on a combination of mark-to-model and mark-to-market basis.

Notes to Basic Financial Statements (Continued)

NOTE 4 – SECURITIES LENDING PROGRAM (Continued)

SECURITIES LENDING – INVESTMENT AND COLLATERAL RECEIVED

(at Fair Value in Thousands)

| | 2011 |
|--|-------------------|
| Type of Investment Lent | |
| For Cash Collateral: | |
| U.S. government and agencies | \$ 4,097 |
| Domestic corporate bonds | 24,297 |
| Domestic equity securities | 66,279 |
| U.S. treasury notes and bonds | 53,217 |
| International equity securities | 10,570 |
| Total Lent for Cash Collateral | 158,460 |
| For Non-Cash Collateral: | |
| Domestic corporate bonds | 136 |
| Domestic equity securities | 90 |
| U.S. treasury notes and bonds | 3,321 |
| International equity securities | 638 |
| Total Lent for Non-Cash Collateral | 4,245 |
| Total Securities Lent | \$ 162,705 |
| Type of Collateral Received | |
| Cash Collateral | \$ 161,942 |
| Non-cash Collateral: | |
| For lent domestic corporate bonds | 149 |
| For lent domestic equity securities | 22 |
| For lent U.S. treasury notes and bonds | 3,391 |
| For lent international equity securities | 713 |
| Total Non-Cash Collateral | 4,345 |
| Total Collateral Received | \$ 166,287 |

Notes to Basic Financial Statements (Continued)

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PRDGRESS

Contributions to the Defined Benefit Pension Plan by both the City and the participating employees are based upon an actuarially determined percentage of each employee's pensionable and earnable salary sufficient to provide adequate assets to pay benefits when due. On June 24, 2008, the City Council adopted ordinance No. 28332 amending Chapter 3.28 of Title 3 of the San José Municipal Code to provide the City with the option to make lump sum payments of City required contributions to the System.

In addition, in November 2010, the Board adopted a funding policy setting the annual required contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The annual required contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of \$86,888,000 (if paid at the beginning of the fiscal year) or 28.34% of actual payroll for the fiscal year. The actual payroll for the fiscal year of \$224,742,000 was less than the actuarial payroll of \$318,544,000 resulting in an annual required contribution of \$86,888,000 as of July 1, 2011, excluding year end contributions receivable and prior year contribution adjustments.

On July 1, 2010, the City paid the actuarially determined prepayment amount of \$66,986,000 for biweekly pension and postemployment health contributions to be made for the 26 pay dates from July 2, 2010 through June 17, 2011. The City also paid \$503,000 for the reconciliation of fiscal year 2010-2011 pension and postemployment health contributions per San José Municipal Code 3.28.940(F), which requires the Board to determine whether the lump sum advance payment(s) and the payments that otherwise would have been required in the absence of the lump sum advance payment are actuarially equivalent. At year end the accrued contributions receivable included the City funding the Defined Benefit Pension Plan ARC for fiscal year 2011 based on the June 30, 2009 valuation. In order to avoid creating a net pension obligation the City elected not to phase-in the impact of the June 30, 2009 assumption changes on the contribution rates over a five-year period as originally adopted by the Board.

In addition, effective June 27, 2010 through June 25, 2011, the bargaining unit representing Association of Maintenance Supervisory Personnel (AMSP), Association of Engineers and Architects (AEA), Operating Engineers Local No. 3 (OE#3), City Association of Management Professionals (CAMP), and the International Brotherhood of Electrical Workers (IBEW) entered into a Memorandum of Agreement (MOA) with the

City to make one-time additional retirement contributions that would be applied to reduce the contributions that the City would otherwise be required to make during that time period for the pension unfunded liability. The one-time contribution amounts varied by bargaining unit, but all summed to 10.83% of applicable payroll for the fiscal year. The MOAs also included language recognizing that the additional contributions could not be implemented by June 27, 2010, and allowed for the Finance Department of the City to compute a rate that would generate the total amount of additional retirement contributions over the remaining pay periods in the fiscal year as if the contribution rate had been implemented on June 27, 2010. The City's Finance Department calculated and implemented an additional 13.05% of contributions effective on August 22, 2010. The contribution rates provided below do not reflect the additional retirement contributions made by employees.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the actuarial accrued liability shown in the Schedule of Funded Status for the Defined Benefit Pension Plan.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2012 and 2011 were as follows:

| Period | City* | Employee |
|---------------------|--------|----------|
| 06/24/12 - 06/30/12 | 44.45% | 5.74% |
| 06/26/11 - 06/23/12 | 28.34% | 7.88% |
| 07/01/10 - 06/25/11 | 25.75% | 4.54% |

* The actual contribution rates paid by the City for fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. In fiscal year 2011 the actual contributions rates paid by the City differed as a result of the City exercising its option to make annual lump sum payments and due to the additional contributions paid by the employees. In addition, in fiscal year 2011 the City elected to fund the actuarial required contribution amount and not the phase-in contribution amount.

Notes to Basic Financial Statements (Continued)

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The funded status of the Defined Benefit Pension Plan as of June 30, 2011, the most recent actuarial valuation date, is as follows (In Thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|---------------------|--------------|------------------------|---|
| | (a) | (b) | (b-a) | (a) / (b) | (c) | ((b-a)/c) |
| 06/30/2011 | \$ 1,788,660 | \$ 2,770,227 | \$ 981,567 | 65% | \$ 228,936 | 429% |

The UAAL of \$982 million does not include the impact of approximately \$28 million of accumulated deferred investment losses resulting primarily from unfavorable investment returns in fiscal years 2008 and 2009. The System's actuarial valuation uses a five-year smoothing method for investment returns. This means that the current year's gains or losses, as calculated at year-end, are smoothed with the results from the prior four years. The deferred investment loss also includes 80% or approximately \$131 million in investment gains for fiscal year 2011. It is anticipated that future actuarial valuations will recognize the remaining deferred investment losses of approximately \$28 million as described above.

The June 30, 2011 valuation included a change in the expected rate of return from 7.95% to 7.50% and a change in the payroll wage inflation assumption from 3.90% to 3.25%. In addition, the Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at 0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees. The valuation also includes significant experience changes of the System including a 14% reduction in the number of active members and a 24% reduction in the expected payroll.

The June 30, 2011 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2011 valuation is 25.2 years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and investment return. Experience studies are performed by the Board's actuary to determine continual revision to the actuarial assumptions as actual results are compared with past expectations and new estimates are made about the future.

The System transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2012 and 2011, were based on the actuarial valuations performed on June 30, 2010 and 2009, respectively, except for the period June 24 through June 30, 2012, which were based on the June 30, 2011 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Notes to Basic Financial Statements (Continued)

NOTE 5 – DEFINED BENEFIT PENSION PLAN: CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

| Description | Method/Assumption | | |
|---|---|--|---|
| | June 30, 2011 | June 30, 2010 | June 30, 2009 |
| Valuation date | June 30, 2011 | June 30, 2010 | June 30, 2009 |
| Actuarial cost method | Entry age normal cost method | Entry age normal cost method | Entry age normal cost method |
| Amortization method for actuarial accrued liabilities | Level percentage of payroll | Level percentage of payroll | Level percentage of payroll |
| Remaining amortization period | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. |
| Actuarial asset valuation method | 5 year smoothed market | 5 year smoothed market | 5 year smoothed market |
| Actuarial assumptions: | | | |
| Assumed rate of return on investments (net) | 7.50% per annum | 7.95% per annum | 7.75% per annum |
| Postretirement mortality | For healthy annuitants, the male and female RP-2000 combined employee and annuitant mortality tables projected to 2015 and set back two years. For disabled annuitants, the CalPERS ordinary disability table from their 2000-2004 study for miscellaneous employees. | The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table. | The 1994 Group Annuity Mortality Table set back three years for males and one year for females was used for healthy retirees and beneficiaries. The disabled mortality table used was the 1981 Disability Mortality Table. |
| Active service, withdrawal, death, disability, service retirement | Tables based on current experience | Tables based on current experience | Tables based on current experience |
| Salary increases | The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 15+ ranging from 4.50% to 0.25% at the 14th year of service. | The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.25% at the 5th year of service. | The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service. |
| Projected total payroll increases | 3.25% | 3.90% | 3.83% |

The schedules presented as required supplementary information following the notes to the financial statements present multiyear trend information. The Schedule of Funding Progress for the Defined Benefit Pension Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Defined Benefit Pension Plan

presents trend information about the amounts contributed to the plan by the employer in comparison to the annual required contribution (ARC). The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Notes to Basic Financial Statements (Continued)

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS

Contributions to the Postemployment Healthcare Plan are made by both the City and the participating employees. Contribution rates for fiscal years ended June 30, 2012 and 2011 were based on the actuarial valuation performed as of June 30, 2010 and 2009, respectively. The contribution rates for the majority of fiscal year ended June 30, 2012 (through period ended June 23, 2012) were based on the actuarial valuation performed on June 30, 2010. The System's most recent valuation as of June 30, 2011, was used to determine the contribution rates effective June 24, 2012.

Prior to July 1, 2009, annual contributions for the Postemployment Healthcare Plan were based on the cost for funding, as a level-percentage of payroll, based upon a 15-year projection of premiums (Policy method). The contributions were not sufficient to meet the requirements of an annual required contribution under GASB Statement No. 43. After June 30, 2009, the contribution rates represent the cost to phase in to the full annual required contribution under GASB Statement No. 43 over a five year period. Effective June 28, 2009, the bargaining units representing the Federated members of the System agreed in a Memorandum of Agreement (MOA) with the City to increase contribution rates for retiree health and dental benefits in order to phase-in full funding of the GASB Statement No. 43 annual required contributions over the next five years; fiscal year ended June 30, 2012 was the third year of the phase-in. The MOA also provides that the five year phase-in of the ARC will not have an incremental increase of more than 0.75% of pensionable pay in each fiscal year for the employee or City contributions. Notwithstanding these limitations on incremental increases, the MOA further provide that by the end of the five-year phase-in the City and the employees shall be contributing the full ARC in the ratio currently provided in the relevant sections of the San José Municipal Code.

In addition, in November 2010, the Board adopted a funding policy setting the annual contribution to be the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. The annual contribution determined in the June 30, 2010 valuation for fiscal year ending June 30, 2012 was the greater of \$21,471,000 (if paid on 07/01/2011) or 7.16% of actual payroll for the fiscal year. The actual payroll for the fiscal year of \$224,742,000 was less than the actuarial payroll of \$318,544,000 resulting in an annual contribution of \$21,471,000 as of July 1, 2011, excluding year end contributions receivable, the implicit subsidy, and prior year contribution adjustments.

The City and the participating employee contribution rates in effect during the fiscal years ended June 30, 2012 and 2011 for the Postemployment Healthcare Plan were as follows:

| Period | City* | Employee |
|---------------------|-------|----------|
| 06/24/12 – 06/30/12 | 7.91% | 7.26% |
| 06/26/11 – 06/23/12 | 7.16% | 6.52% |
| 07/01/10 – 06/25/11 | 6.41% | 5.76% |

* The actual contribution rates paid by the City for fiscal year ended June 30, 2012 differed due to the City funding the annual required contribution amount based on the greater of the dollar amount reported in the actuarial valuation or the dollar amount determined by applying the percentage of payroll reported in the valuation to the actual payroll, if actual payroll exceeds the actuarial payroll, for the fiscal year. In fiscal year 2011 the actual contributions rates paid by the City differed as a result of the City exercising their option to make annual lump sum payments.

The funded status of the Postemployment Healthcare Plan as of June 30, 2011, the most recent actuarial valuation date, is as follows (In Thousands):

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|---------------------|--------------|------------------------|---|
| (a) | (b) | (b-a) | (a) / (b) | (c) | ((b-a)/c) | |
| 06/30/2011 | \$ 135,454 | \$ 1,145,359 | \$ 1,009,905 | 12% | \$ 228,936 | 441% |

Notes to Basic Financial Statements (Continued)

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

As of June 30, 2011, the System's most recent valuation, the System's UAAL increased by approximately \$192 million primarily due to the decrease in the blended GASB investment rate of return from 6.71% to 6.10% and changes in actuarial assumptions as recommended by the Board's actuary in the June 30, 2010 experience study. The System's OPEB discount rate is based on a blended rate that ranges between the expected return on the City's unrestricted assets (4.0%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 6.10%. The June 30, 2011 valuation included a reduction in expected return on City assets from 4.5% to 4.0% and in the System's expected return from 7.95% to 7.5%. Actuarial assumption changes in the June 30, 2011 valuation also included changes in the wage inflation, salary merit increases, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rates assumptions. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the \$25 co-pay plans offered for the first time by the City.

The System's valuation as of June 30, 2010 included actuarial assumption changes recommended by the actuary and approved by the Board including increases in the following: the System's expected rate of return from 7.75% to 7.95%, payroll wage inflation assumption from 3.83% to 3.90%, and lengthening the select period for healthcare trends from 9 years to 15 years. The increase in the discount rate and payroll wage inflation rate assumptions were due to the transition to phasing in the discount and wage inflation rate over two-years instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period as originally adopted by the Board.

The lengthening of the select period for the healthcare trend assumption was recommended by the Board's actuary due to the actuary's expectations for the future.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan in effect and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The System transitioned from biennial to annual valuations beginning June 30, 2010. The contribution rates for fiscal years ended June 30, 2012 and 2011, were based on the actuarial valuations performed on June 30, 2010 and 2009, respectively, except for the period June 24 through June 30, 2012, which were based on the June 30, 2011 valuation; the significant actuarial methods and assumptions used to compute the actuarially determined annual required contributions and the funded status are as follows:

Notes to Basic Financial Statements (Continued)

NOTE 6 -- POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

| Description | Method/Assumption | | |
|------------------------------------|--|---|---|
| Valuation date | June 30, 2011 | June 30, 2010 | June 30, 2009 |
| Actuarial cost method | Entry age normal cost method | Entry age normal cost method | Entry age normal cost method |
| Amortization method | Level percentage of payroll | Level percentage of payroll | Level percentage of payroll |
| Remaining amortization period | 20-year layered closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. | 20-year layered, closed, level percentage of payroll with the 6/30/2009 UAAL amortized over a closed 30-year period. |
| Actuarial asset valuation method | Market value | Market value | Market value |
| Actuarial assumptions: | | | |
| Discount rate (net) | 6.10% † | 6.01% † | 6.70% † |
| Wage inflation rate | 3.25% | 3.90% | 3.67% |
| Salary increases | The base annual rate of salary increase is 3.25% wage inflation rate plus a rate increase for merit/longevity for years 0 to 14+ ranging from 4.50% to 0.25% at the 15th year of service. | The base annual rate of salary increase is 3.90% wage inflation rate plus a rate increase for merit/longevity for the first 5 years of service ranging from 5.75% to 0.75% at the 5th year of service. | The base annual rate of salary increase is comprised of a 3.67% inflation rate plus 0.41% for wage inflation for a total rate of 4.08%. This is added to a rate increase for merit/longevity for the first 5 years of service ranging from 5.50% to 0.75% at the 5th year of service. |
| Projected total payroll increases | 3.25% | 3.90% | 3.83% |
| Healthcare cost trend rate: | | | |
| Medical | The valuation assumes that future medical inflation will be at a rate of 9.17% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 6.83% to 4.5% per annum graded down over a 15 year period for medical-post age 65. | The valuation assumes that future medical inflation will be at a rate of 9.50% to 4.5% per annum graded down over a 15 year period for medical-pre age 65 and 7.0% to 4.5% per annum graded down over a 15 year period for medical-post age 65. | The valuation assumes that future medical inflation will be at a rate of 10% per annum graded down each year in 0.50% increments to an ultimate rate of 4.5% for medical-pre age 65 and 7.5% per annum graded down each year in 0.25% increments to an ultimate rate of 4.5% for medical-post age 65. |
| Dental | Dental inflation is assumed to be 4.50% graded down to 4% over a three year period. | Dental inflation is assumed to be 5% graded down to 4% over a four year period. | Dental inflation is assumed to be 5% graded down to 4% over a four year period. |

† Determined as a blended rate of the expected long-term investment returns on plan assets and on the City's investments, based on the funded level of the plan at the valuation date.

Notes to Basic Financial Statements (Continued)

NOTE 6 – POSTEMPLOYMENT HEALTHCARE PLAN CONTRIBUTIONS, FUNDED STATUS AND FUNDING PROGRESS (Continued)

The schedules presented as required supplementary information following the notes to the financial statements, present multiyear trend information. The Schedule of Funding Progress for the Postemployment Healthcare Benefit Plan presents information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Employer Contributions for the Postemployment Healthcare Benefit Plan presents trend information about the amounts contributed to the plan by employers in comparison to the annual required contribution (ARC) determined in accordance with the parameters of GASB Statement 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

NOTE 7 – SUBSEQUENT EVENTS

Commitments – As of June 30, 2012, the System had unfunded commitments to contribute capital for private equity fund investments in the amount of \$105,377,000.

New Benefit Tier – On June 5, 2012, the voters of San Jose enacted the Sustainable Retirement Benefits and Compensation Act (Pension Act). The Pension Act amended the City Charter to change benefits for current employees to establish different benefits for new employees and to place other limitations on benefits.

Section 1508-A of the Pension Act applicable to new employees was adopted on August 28, 2012 by San Jose City Council Ordinance No. 29120 to provide Tier 2 pension benefits for new System members hired on or after September 30, 2012. The new tier includes significant benefit changes from the existing Tier 1 plan including, but not limited to, a decrease in the benefits multiplier from 2.5% per year to 2.0% per year, an increase from 55 years to 65 years of age for retirement eligibility at full benefits, a consumer price index driven cost-of-living increase with a maximum of 1.5% instead of the existing annual fixed 3.0% increase, a decrease in maximum benefit to 65% of final average salary from 75%, no survivor benefits for death after retirement unless the member elects a reduced benefit, pensionable compensation to be based on base salary only, rather than base compensation plus premium pays; members to contribute 50% of the total Normal Cost, any accrued unfunded actuarial liability and administrative costs of the System; year of service credit to require 2080 hours of work rather than 1730 hours of work and final average compensation based on the highest consecutive 3 years of compensation compared to highest 1 year. Significant portions of the Pension Act applicable to existing employees and effective June 23, 2013 are currently subject to legal challenge by members of the System. Additionally, various bargaining units representing members of the System have filed unfair labor practice charges with the California Public Employment Relations Board related to the Pension Act.

Required Supplementary Information (Unaudited)

SCHEDULE OF FUNDING PROGRESS – DEFINED BENEFIT PENSION PLAN (Unaudited)

(Dollars In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) | Unfunded AAL | Funded Ratio | Annual Covered Payroll (b) | Unfunded AAL as a % of Annual Covered Payroll |
|--------------------------|-------------------------------|-----------------------------------|--------------|--------------|----------------------------|---|
| June 30, 2007 | \$ 1,622,851 | \$ 1,960,943 | \$ 338,092 | 83% | \$ 291,405 | 116% |
| June 30, 2009 | 1,756,588 | 2,486,155 | 729,567 | 71% | 308,697 | 236% |
| June 30, 2010 | 1,729,414 | 2,510,358 | 780,944 | 69% | 275,869 | 283% |
| June 30, 2011 | 1,788,660 | 2,770,227 | 981,567 | 65% | 228,936 | 429% |

Actuarial valuations have been performed biennially through June 30, 2007. The System transitioned to annual actuarial valuations after June 30, 2009.

- (a) Reported at "smoothed market" value determined using a technique that smooths the effect of short-term volatility in the market value of investments over a five-year period.
- (b) Annual covered payroll represents the actuarial estimate of annual covered payroll for the subsequent year for the June 30, 2011 and the 2007 and prior valuations. The amount presented for the June 30, 2009 and 2010 valuations represents actual annual covered payroll.

As of June 30, 2011, the System's most recent valuation, the System's funded ratio declined from 69% to 65%, the AAL increased by \$259.9 million, and the UAAL increased by \$200.6 million. The increase in the UAAL was primarily due to the assumption changes. The June 30, 2011 valuation included a change in the expected rate of return from 7.95% to 7.50% and a change in the payroll wage inflation assumption from 3.90% to 3.25%. In addition, the Board approved the actuary's recommendation to explicitly include administrative expenses and SRBR costs as additions to normal cost (valued at 0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR) in the June 30, 2011 valuation. The expected rate of return of 7.50% is now only net of investment manager fees.

The June 30, 2011 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over a 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2011 valuation is 25.2 years.

As of the June 30, 2010, the System's funded ratio declined from 71% to 69%, the AAL increased by \$24 million, and the UAAL increased by \$51.4 million primarily due to recognition of deferred investment losses in accordance with the System's actuarial valuation method. The June 30, 2010, valuation also included assumption changes for the expected rate of return from 7.75% to 7.95% and a change in the payroll wage inflation assumption from 3.83% to 3.90%. The

increase in the discount rate and payroll wage inflation rate assumptions are due to the transition to phasing in the discount and wage inflation rate over two-years ending June 30, 2011 instead of phasing in the impact of the assumption changes on the contribution rates over a five-year period, which was originally adopted by the Federated Board for fiscal year 2010-2011 contributions. However, the City elected to fund the annual required contribution amount for fiscal year 2010-2011 and not fund the phase-in impact of the assumption change.

In the System's June 30, 2009 valuation, the AAL increased by \$525 million primarily due to demographic experience losses and changes in actuarial assumptions as recommended by the Board actuary in the June 30, 2009 experience study. The June 30, 2009 valuation included actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The impact of the economic assumption changes increased the AAL by approximately \$142,000,000 and the total contribution requirement by 3.64% prior to the impact of the 5-year phase in changes. Changes in pre-mortality and post-mortality demographic assumptions increased the AAL by \$87,000,000 and the total contribution requirement by 1.58%.

Required Supplementary Information (Unaudited) (Continued)

SCHEDULE OF EMPLOYER CONTRIBUTIONS - DEFINED BENEFIT PENSION PLAN (Unaudited)

For the six fiscal years ended June 30, 2012
(Dollars In Thousands)

| Fiscal Year Ended June 30, | Annual Required Employer Contributions* | Percentage Contributed |
|-------------------------------|--|---------------------------|
| 2007 | \$ 51,004 | 100% |
| 2008 | 54,958 | 100% |
| 2009 | 57,020 | 100% |
| 2010 | 54,566 | 100% |
| 2011 | 59,180 | 100% |
| 2012 | 87,082 | 100% |

* The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions including year-end contributions receivable and prior year contribution adjustments. In addition, in fiscal year ended June 30, 2011, the ARC has been reduced to reflect the additional employee contributions pursuant to MOAs with certain bargaining units.

SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited) (Dollars In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Annual Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|--|------------------------|-----------------|------------------------------|--|
| | (a) | (b) | (b-a) | (a) / (b) | (c) | ((b-a)/c) |
| 06/30/2007 | \$ 96,601 | \$ 616,749 | \$ 520,148 | 6% | \$ 271,833 | 191% |
| 06/30/2009 | 85,564 | 710,884 | 710,884 | 11% | 308,697 | 230% |
| 06/30/2010 | 108,011 | 818,360 | 818,360 | 12% | 275,869 | 297% |
| 06/30/2011 | 135,454 | 1,009,905 | 1,009,905 | 12% | 228,936 | 441% |

As of June 30, 2011, the System's most recent valuation, the System's UAAL increased from \$818.4 million to \$1009.9 million. The System's UAAL increased by approximately \$191.5 million due to the decrease in the blended GASB discount rate from 6.71% to 6.10% and changes in actuarial assumptions as recommend by the Board's actuary in the June 30, 2010 experience study. The System's discount rate is based on a blended rate that ranges between the expected

return on the City's unrestricted assets (4.0%) and the expected return on the System's invested assets (7.50%) resulting in a blended discount rate of 6.10%. The June 30, 2011 valuation included a reduction in the expected return on the City assets from 4.5% to 4.0% and in the System's expected return from 7.95% to 7.50%. Actuarial assumption changes in the June 30, 2011 valuation also included changes in the wage inflation, salary merit increases, family

Required Supplementary Information (Unaudited) (Continued)

composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rates assumptions. In addition, the June 30, 2011 OPEB valuation included retirees paying the difference between the actual premium for the elected plan and the \$25 co-pay plans offered for the first time by the City.

The June 30, 2011 valuation contains the Board adopted 30/20 layered amortization methodology which includes the amortization of the unfunded liability as of June 30, 2009 over a 30 years from that date, and the amortization of subsequent gains and losses or assumption changes amortized over 20 years from the valuation in which they are first recognized. The equivalent single amortization period for the June 30, 2011 valuation is 25.1 years.

The System's UAAL increased from \$710.9 million as of June 30, 2009 to \$818.4 million as of June 30, 2010. Changes to the UAAL were primarily the result of interest on the UAAL and changes in the actuarial assumptions including the following: increases in claims costs, the extension of the select period for healthcare trends from 9 years to 15 years, and the increase in the payroll wage inflation assumption from 3.83% to 3.90%. The System's OPEB discount rate was based on the blended rate between the expected return on City assets (4.5%) and the expected return on System's assets (7.95%) resulting in a blended discount rate of 6.71% in the June 30, 2010 valuation. The lengthening of the healthcare trend assumption select period was recommended by the Board's

actuary due to the System's current retiree experience and the actuary's expectation for the future.

In the System's June 30, 2009 valuation, the UAAL increased from \$520.1 million as of June 30, 2007 to \$710.9 million as of June 30, 2009. Changes to the UAAL were primarily the result of unfavorable investment returns during the prior two years and changes in the actuarial assumptions including healthcare trend assumption changes, changes in economic assumptions and demographic changes in pre-mortality and post-mortality demographic assumptions.

The June 30, 2009 valuation included actuarial assumption changes approved by the Board including phasing in the impact of changes in economic assumptions on contribution rates of the following over a five-year period: a reduction in the investment return assumption from 8.25%, net of expenses, to 7.75%, net of expenses; a reduction in the underlying inflation assumption from 4.0% to 3.67%; a reduction in the payroll growth assumption from 4.00% to 3.83%; and a reduction in the ultimate salary increase assumption from 4.25% to 4.08%. The June 30, 2009 valuation also included the transition from a 30 year closed amortization period to a 30/20 layered amortizations methodology. There was no impact of this change on the June 30, 2009 valuation as the amortization for the first year of a 30 year closed amortization period was the same as a 30 year open period.

SCHEDULE OF EMPLOYER CONTRIBUTIONS - POSTEMPLOYMENT HEALTHCARE PLAN (Unaudited)

(Dollars in Thousands)

| Fiscal Year Ended | Annual Required Contributions* | Actual Contributions | Percentage Contributed |
|-------------------|--------------------------------|----------------------|------------------------|
| 06/30/2008 | \$ 38,526 | \$ 11,560 | 30% |
| 06/30/2009 | 33,381 | 16,468 | 49% |
| 06/30/2010 | 38,599 | 17,027 | 44% |
| 06/30/2011 | 47,593 | 17,146 | 36% |
| 06/30/2012 | 67,583 | 25,834 | 39% |

* The annual required employer contributions (ARC) provided above are based on the Board adopted ARC rates adjusted for the timing of actual contributions and include the actuarially determined implicit subsidy amounts of \$1,551 million for 2008; \$1,648 million for 2009; \$3,987 million for 2010; \$3,925 million for 2011; and \$4,383 million for 2012. The actual contributions include year-end contributions receivable and prior year contribution adjustments. The June 30, 2011 ARC has also been corrected from \$48,529 to \$47,593.

Other Supplementary Information

COMBINING SCHEDULE OF DEFINED BENEFIT PENSION PLAN NET ASSETS For the Fiscal Years Ended June 30, 2012 (Dollars in Thousands)

| | Retirement Fund | Cost-of-Living | Total |
|--|---------------------|-------------------|---------------------|
| Assets | | | |
| Receivables: | | | |
| Employee contributions | \$ 1,600 | \$ 59 | \$ 1,659 |
| Employer contributions | | 369 | 369 |
| Brokers and others | 1,216 | 395 | 1,611 |
| Accrued investment income | 2,304 | 772 | 3,076 |
| Total receivables | 5,120 | 1,595 | 6,715 |
| Investments, at fair value: | | | |
| Securities and other: | | | |
| Domestic fixed income | 112,196 | 40,954 | 153,150 |
| International fixed income | 1,475 | 538 | 2,013 |
| Collective short-term investments | 168,624 | 61,552 | 230,176 |
| Corporate convertible bonds | 34,647 | 12,647 | 47,294 |
| Pooled fixed income | 24,092 | 8,794 | 32,886 |
| Global equity | 238,863 | 87,191 | 326,054 |
| Pooled global equity | 330,570 | 120,666 | 451,236 |
| Private equity | 64,568 | 23,569 | 88,137 |
| Forward international currency contracts | 306 | 112 | 418 |
| Opportunistic investments | 56,722 | 20,705 | 77,427 |
| Real assets | 113,219 | 41,328 | 154,547 |
| Real estate | 63,478 | 23,171 | 86,649 |
| Total investments | 1,208,760 | 441,227 | 1,649,987 |
| TOTAL ASSETS | 1,213,880 | 442,822 | 1,656,702 |
| Liabilities | | | |
| Payable to brokers | 3,063 | 1,026 | 4,089 |
| Other liabilities | 3,015 | 349 | 3,364 |
| TOTAL LIABILITIES | 6,078 | 1,375 | 7,453 |
| Net Assets Held in Trust For: | | | |
| Pension benefits | 1,207,802 | 441,447 | 1,649,249 |
| TOTAL NET ASSETS | \$ 1,207,802 | \$ 441,447 | \$ 1,649,249 |

Other Supplementary Information (Continued)

COMBINING SCHEDULE OF CHANGES IN DEFINED BENEFIT PENSION PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 (Dollars in Thousands)

| | Retirement Fund | Cost-of-Living | Total |
|---|---------------------|-------------------|---------------------|
| Additions | | | |
| Contributions | | | |
| Employee | \$ 7,994 | \$ 2,561 | \$ 10,555 |
| Employer | 69,496 | 17,586 | 87,082 |
| Total contributions | 77,490 | 20,147 | 97,637 |
| Investment income: | | | |
| Net depreciation in fair value of investments | (74,013) | (24,842) | (98,855) |
| Interest income | 20,199 | 6,827 | 27,026 |
| Dividend income | 6,983 | 2,367 | 9,350 |
| Net rental income | 389 | 131 | 520 |
| Less investment expense | (5,267) | (1,806) | (7,073) |
| Net investment loss before securities lending income | (51,709) | (17,323) | (69,032) |
| Securities lending income: | | | |
| Earnings | 66 | 22 | 88 |
| Rebates | 63 | 21 | 84 |
| Fees | (32) | (11) | (43) |
| Net securities lending income | 97 | 32 | 129 |
| Net investment loss | (51,612) | (17,291) | (68,903) |
| TOTAL ADDITIONS | 25,878 | 2,856 | 28,734 |
| Deductions | | | |
| Retirement benefits | 100,007 | 25,994 | 126,001 |
| Death benefits | 5,180 | 3,421 | 8,601 |
| Refund of contributions | 1,918 | 277 | 2,195 |
| Administrative expenses and other | 2,456 | 850 | 3,306 |
| TOTAL DEDUCTIONS | 109,561 | 30,542 | 140,103 |
| NET INCREASE/(DECREASE) | (83,683) | (27,686) | (111,369) |
| Net Assets Held In Trust For Pension Benefits | | | |
| BEGINNING OF YEAR | 1,291,485 | 469,133 | 1,760,618 |
| END OF YEAR | \$ 1,207,802 | \$ 441,447 | \$ 1,649,249 |

Other Supplementary Information (Continued)

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET ASSETS

For the Fiscal Years Ended June 30, 2012 (Dollars in Thousands)

| | Postemployment Healthcare 401(h) | Postemployment Healthcare (115) | Postemployment Healthcare Plan |
|--|--|---------------------------------------|-----------------------------------|
| Assets: | | | |
| Receivables: | | | |
| Employee contributions | \$ 304 | \$ - | \$ 304 |
| Employer contributions | | 318 | 318 |
| Brokers and others | 117 | - | 117 |
| Accrued investment income | 221 | | 221 |
| Total receivables | 642 | 318 | 960 |
| Investments, at fair value: | | | |
| Securities and other: | | | |
| Domestic fixed income | 10,759 | 1,997 | 12,756 |
| International fixed income | 141 | 26 | 167 |
| Collective short-term investments | 16,171 | 3,000 | 19,171 |
| Corporate convertible bonds | 3,323 | 617 | 3,940 |
| Pooled fixed income | 2,310 | 429 | 2,739 |
| Global equity | 22,907 | 4,250 | 27,157 |
| Pooled global equity | 31,701 | 5,882 | 37,583 |
| Private equity | 6,192 | 1,149 | 7,341 |
| Forward international currency contracts | 29 | 5 | 34 |
| Opportunistic investments | 5,440 | 1,009 | 6,449 |
| Real assets | 10,858 | 2,014 | 12,872 |
| Real estate | 6,087 | 1,129 | 7,216 |
| Total investments | 115,918 | 21,507 | 137,425 |
| TOTAL ASSETS | 116,560 | 21,825 | 138,385 |
| Liabilities: | | | |
| Payable to brokers | 294 | 1 | 295 |
| Other liabilities | 289 | 3 | 292 |
| TOTAL LIABILITIES | 583 | 4 | 587 |
| Net Assets Held In Trust For: | | | |
| Postemployment healthcare benefits | 115,977 | 21,821 | 137,798 |
| TOTAL NET ASSETS | \$ 115,977 | \$ 21,821 | \$ 137,798 |

See accompanying notes to basic financial statements.

(Continued)

Other Supplemental Information (Continued)

COMBINING SCHEDULE OF OTHER POSTEMPLOYMENT PLAN NET ASSETS (continued)

For the Fiscal Years Ended June 30, 2012 (Dollars in Thousands)

| | Postemployment Healthcare 401(h) | Postemployment Healthcare (115) | Postemployment Healthcare Plan |
|--|-------------------------------------|------------------------------------|-----------------------------------|
| Additions: | | | |
| Contributions: | | | |
| Employee | \$ 14,995 | \$ - | \$ 14,995 |
| Employer | 4,044 | 21,790 | 25,834 |
| Total contributions | 19,039 | 21,790 | 40,829 |
| Investment income: | | | |
| Net depreciation in fair value of investments | (7,445) | (366) | (7,811) |
| Interest income | 2,031 | (1) | 2,031 |
| Dividend income | 702 | 436 | 1,138 |
| Net rental income | 39 | - | 39 |
| Less investment expense | (530) | (17) | (547) |
| Net investment income (loss) before securities lending income | (5,202) | 52 | (5,150) |
| Securities lending income: | | | |
| Earnings | 7 | - | 7 |
| Rebates | 6 | - | 6 |
| Fees | (3) | - | (3) |
| Net securities lending income | 10 | - | 10 |
| Net investment income (loss) | (5,192) | 52 | (5,140) |
| TOTAL ADDITIONS | 13,847 | 21,842 | 35,689 |
| Deductions: | | | |
| Healthcare insurance premiums | 33,073 | - | 33,073 |
| Administrative expenses and other | 217 | 21 | 238 |
| TOTAL DEDUCTIONS | 33,290 | 21 | 33,311 |
| NET INCREASE/(DECREASE) | (19,443) | 21,821 | 2,378 |
| Net Assets Held In Trust For Pension Benefits and Postemployment Healthcare Benefits: | | | |
| BEGINNING OF YEAR | 135,454 | - | 135,454 |
| END OF YEAR | \$ 115,977 | \$ 21,821 | \$ 137,798 |

Other Supplementary Information (Continued)

SCHEDULES OF ADMINISTRATIVE EXPENSES AND OTHER

For the Fiscal Years Ended June 30, 2012 and 2011

| | 2012 | | 2011 | |
|--|---------------------|---------------------|------------------------------|---------------------|
| | Original Budget | Actual | Variance Positive (Negative) | Actual |
| Personal services | \$ 2,498,250 | \$ 1,931,311 | \$ 566,939 | \$ 1,995,925 |
| Non-personal/equipment | 1,097,594 | 693,031 | 404,563 | 611,197 |
| Professional services | 974,732 | 949,233 | 25,499 | 475,678 |
| TOTAL ADMINISTRATIVE EXPENSES & OTHER | \$ 4,570,576 | \$ 3,573,575 | \$ 997,001 | \$ 3,082,800 |

SCHEDULES OF PAYMENTS TO CONSULTANTS

For the Fiscal Years Ended June 30, 2012 and 2011

| Firm | Nature of Service | 2012 | 2011 |
|--------------------------------------|--|-------------------|-------------------|
| Chellon Inc. | Actuarial consultant | \$ 306,144 | \$ 140,550 |
| Centex Applied Research Inc. | Governance consultant | 92,888 | - |
| Financial Knowledge/Peter Sepsis | Educational services | 11,348 | 22,529 |
| Gabriel Roeder Smiths Company | Actuarial consultant | - | 24,749 |
| Joe Miller | Legal tax counsel | 469 | 70,929 |
| LRS Weensier LTD | Pension system consultant | 145,478 | - |
| Legal - City Attorney's Office | Legal counsel | 48,740 | 49,820 |
| Levi Ray & Shoup | Web development and maintenance | 11,595 | 11,711 |
| Levi Ray & Shoup | Programing changes and business continuance services | 7,474 | 8,979 |
| Marias Gilt & O'Connell LLP | External auditors | 55,186 | 67,445 |
| Medical Director/Other Medical | Medical consultant | 59,845 | 42,245 |
| Pension Benefit Information | Reports on deceased benefit recipients | 1,999 | 1,721 |
| Reed Smith LLC | Fiduciary and general counsel | 75,463 | - |
| Robert Hall Mangerman Resources | Temporary staff | 50,579 | 6,090 |
| Saltzman & Johnson | Legal counsel | 35,691 | 28,910 |
| Silicon Valley Professional Staffing | Temporary staff | 15,090 | - |
| Trendler Inc. | Temporary staff | 21,246 | - |
| TOTAL | | \$ 949,233 | \$ 475,678 |

Other Supplementary Information (Continued)

SCHEDULES OF INVESTMENT EXPENSES

For the Fiscal Years Ended June 30, 2012 and 2011

| | 2012 | 2011 |
|--|---------------------|---------------------|
| Investment Managers' fees | | |
| Global Equity: | \$ 2,480,131 | \$ 1,676,343 |
| Private equity* | 1,050,762 | - |
| Total equity | 3,530,893 | 1,676,343 |
| Global fixed income | 582,779 | 605,635 |
| Total fixed income | 582,779 | 605,635 |
| Real estate | 1,367,162 | 519,641 |
| Real assets | 463,684 | - |
| Opportunistic | 1,026,055 | 437,071 |
| TOTAL INVESTMENT MANAGERS' FEES | 6,970,573 | 3,238,690 |
| Other Investment Fees | | |
| Investment consultant | 410,000 | 310,000 |
| Custodian bank** | 198,607 | - |
| Proxy voting | 14,495 | 13,496 |
| Real estate legal fees | 1,097 | 7,776 |
| Real estate appraisals** | - | 4,600 |
| Investment legal fees | 25,289 | 68,773 |
| Total other investment service fees | 649,488 | 404,645 |
| TOTAL INVESTMENT EXPENSES | \$ 7,620,061 | \$ 3,643,335 |

* In fiscal year 2011 private equity and real asset income was reported net of fees.

** In fiscal year 2012 the System transitioned custodian banks and began incurring fees. Also, in fiscal year 2012 the System sold its only separately held real estate property and no longer incurred real estate appraisal fees.

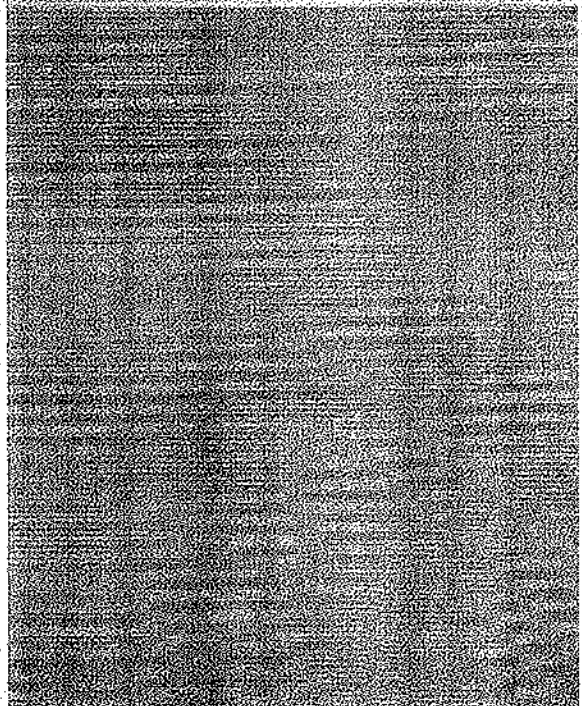
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Investment Section



City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012



Report of Investment Activity



M E K E T A I N V E S T M E N T G R O U P

BOSTON

MIAMI

SAN DIEGO

September 6, 2012

Ms. Donna Busse
Acting Director
San Jose Federated City Employees' Retirement System
1737 North First Street, Suite 580
San Jose, CA 95112-4505

Dear Ms. Busse:

Fiscal year 2012 began with heightened market volatility and risk aversion plaguing the markets, due in part to a renewed focus on the faltering global economy and sovereign debt issues in the Eurozone. Despite efforts by policymakers, including the announcement of the U.S. Federal Reserve's "Operation Twist" and an expansion of the European Financial Stability Facility ("EFSP"), the third quarter of calendar 2011 was the worst quarter for equities since 2008. International equities trailed domestic equities, and returns for U.S. investors were further hampered by a rising dollar. Emerging markets were the worst performing asset class, due in part to inflationary concerns in Asia and fears over slowing global demand for exports from the region. Treasury Inflation-Protected Securities ("TIPS") and investment grade bonds were top performers as investors continued to reduce risk in light of global economic uncertainties.

During the fourth quarter of calendar 2011, investors returned to risk assets due partly to improved economic data and hopes of a resolution to the sovereign debt issues in the Eurozone. Real GDP growth in the U.S. was 2.8% during the quarter, 1.0% above the level of the prior quarter, the U.S. unemployment rate declined somewhat, and in late December 2011, the European Central Bank ("ECB") announced that it would make over \$600 billion in liquidity available to banks across Europe. The domestic equity market, as proxied by the Russell 3000 Index, rose 12.1% during the quarter, though returns for international and emerging markets were more subdued. The MSCI EAFE Index, a proxy for the developed international equity market, returned 3.3%, while the MSCI Emerging Markets Index returned 4.4%.

Investor optimism persisted during the first few months of calendar 2012, as global equity markets soared and U.S. stocks experienced their best quarter since 1998. However, a number of near-term issues remained unresolved, including sovereign debt issues in Europe, the potential for a "hard landing" in China, and a stalled recovery in the U.S. economy. After posting the weakest returns for major asset classes during calendar year 2011, emerging market equities were the top performers, with a return of 14.1% for the first quarter of 2012. The U.S. equity market, as proxied by the Russell 3000 Index, returned 12.9%, and developed market foreign equities recouped the majority of their 2011 losses, with the MSCI EAFE Index gaining 10.9%. Credit spreads compressed for the second consecutive quarter as investors continued to prefer riskier assets.

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760 795 3450 fax 760 795 3445 www.meketagroup.com

Report of Investment Activity (Continued)

Unfortunately, after posting strong returns in the prior two quarters, global equity markets retreated again in the final quarter of fiscal year 2012. Renewed concerns over the European debt crisis, particularly the solvency of Spain, as well as the potential of Greece exiting the Eurozone, contributed to investors' renewed risk aversion. Additionally, increased political uncertainty in Greece and France, disappointing U.S. labor reports, and slowing growth in China and India further contributed to market volatility.

In the Eurozone, GDP was negative, after declining 0.1% in the first quarter of calendar 2012. The ongoing weakness in Europe's economy was attributable in part to decreased spending resulting from austerity programs, coupled with declining demand for European exports from China and other emerging markets. In May of 2012, unemployment reached a record high of 11.1% in the Eurozone. In addition, China's economic growth during the first quarter fell to its slowest rate in three years, and China reduced its bank reserve requirement for the third time in six months due to a decline in inflation and weaker economic data. The central banks of emerging market countries including Brazil also cut interest rates in an attempt to stimulate slowing economies. During the quarter, the MSCI EAFE Index fell -7.1%, the MSCI Emerging Markets Index fell -8.9%, and U.S. equities fell -3.1%.

Globally, developed markets outperformed emerging markets during the full fiscal year, as the MSCI EAFE and the MSCI Emerging Markets indices fell -13.8% and -16.0%, respectively. International small cap stock returns, as proxied by the MSCI EAFE Small Cap Index, fell -15.1% for the fiscal year. U.S. equity returns were positive for the year, with a return of 3.8% for the Russell 3000 Index. Global equity markets as a whole, as proxied by the MSCI All Country World Index ("ACWI") fell -4.7% for the year.

During the first and last quarter of the fiscal year, U.S. Treasuries and other high quality fixed income securities benefited from a "flight to quality," stemming from the European debt crisis and concerns over the strength of the global economic recovery. The Barclays Aggregate index returned 7.5% for the year, while the Barclays U.S. TIPS Index was up an impressive 11.7%. The 10-year Treasury yield fell to 1.6% at the end of June, down from 3.2% at the beginning of the fiscal year.

In the alternative assets space, commodities, as proxied by the Dow Jones-UBS Commodity Index, fell -14.4% for the year. The Hedge Fund Research Institute Fund of Funds Composite fell -4.5% for the fiscal year, while fiscal year returns for private market assets were modestly positive. The National Council of Real Estate Fiduciaries Property Index returned 12.4% and the Venture Economics Private Equity Composite returned 9.6%. Returns for both private market indexes are lagged by one quarter due to the availability of data.

Fiscal 2013 Outlook

Meketa Investment Group believes that three issues remain of primary concern over the next year: the solvency of sovereign governments and banks in Europe, slowing growth in China, and a slow growing U.S. economy that is susceptible to recession. We expect that global GDP growth will be positive, but will continue to be slow for the remainder of calendar year 2012. This slow growth will be due to lower demand for exports, continued austerity measures and high unemployment in developed economies. Slowing growth globally should keep inflation at moderate levels, and deflation continues to be a risk in the developed world.

We anticipate that additional monetary stimulus will be implemented in Europe and the emerging markets, and possibly in the U.S. The U.S. Federal Reserve may implement a third round of quantitative easing

Report of Investment Activity (Continued)

("QE3") to induce demand for credit, though the upcoming general election may diminish the likelihood of such a move. Tax increases and spending cuts scheduled to take place in early 2013 create a "fiscal cliff" that could weigh substantially on the U.S. economy and potentially lead to another recession. It is likely that a short-term resolution will be reached, though it may not happen until after the general election.

The volatility in the markets, while concerning, is not unexpected, and we believe that the Retirement System's portfolio is diversified in a way that provides a good chance for achieving long-term returns to meet the Retirement System's obligations and objectives. In general, we believe actions should be focused on the long-term and should be consistent with the Retirement System's investment policies.

Plan Investment Results and Asset Allocation for Pension Trust

For fiscal year 2012, the San Jose Federated City Employees' Retirement System returned -3.0% gross of fees and -3.2% net of fees¹, while the Custom Benchmark return for the same time period was -3.2%. The Retirement System underperformed the median fund in the InvestMetrics universe of public funds greater than \$1 billion, which returned 1.1% gross of fees for the fiscal year.

The Retirement System's allocations to international equity and alternatives, particularly commodities, were higher than the median allocations for these asset classes among funds in the InvestMetrics universe during the fiscal year (and the fixed income allocation correspondingly lower), causing the relative underperformance. While the Retirement System's long-term return expectations are at a level that would support the Fund's long-term assumed rate of return, the return in any single fiscal year may vary significantly from this long-term average. However, in the 12-month periods ending June 30, 2011 and June 30, 2010, the Retirement System returned 19.0% and 14.0%, respectively. The long-term return expectation takes into account both the years when returns are higher than expected and those when they are lower.

During the fourth quarter of calendar 2011, the Board of Trustees adopted a new asset allocation in response to the results of an asset-liability study, and in order to position the Retirement System to better weather future market downturns. The Retirement System is a multi-generational entity that needs to make benefit payments for many years in the future. Therefore, it is important for the Trustees to focus on investment performance over a long-term horizon, allowing assets to grow to meet future benefit obligations. The Retirement System moved toward the new asset allocation beginning when it was adopted using an overlay, and is currently completing the process of fully completing the move using physical securities. Given the Retirement System's use of passive investments to implement the majority of its asset allocation, the investment management expenses paid by the Retirement System are much lower than the expenses paid by peer institutions.

Plan Investment Results and Asset Allocation for Health Care Trust

In July 2011, a separate Health Care Trust was established with an initial \$21.5 million contribution from the City of San Jose. Prior to the establishment of this Trust, postemployment health care assets were invested alongside the Pension Trust. For fiscal year 2012, the San Jose Federated Retiree Health Care Trust Fund returned 0.6% net of fees. The City Ordinance required the Health Care Trust initially be invested in liquid asset classes according to the Pension Trust Statement of Investment Policy until a separate investment policy was developed, which is expected to be completed during fiscal year 2013.

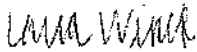
¹ Mekela Investment Group uses the Global Investment Performance Standards (GIPS) developed by the CFA Institute as a guide to calculating performance.

Report of Investment Activity (Continued)

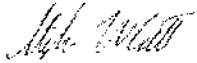
Summary

The Retirement System Staff and Board of Trustees accomplished a great deal from an investment standpoint during fiscal year 2012 through the implementation of the new asset allocation, which aims to better position the Retirement System for potential future market environments. During fiscal year 2013, Meketa Investment Group looks forward to working with Staff and the Board of Trustees to further implement the target asset allocation and enhance the investment manager roster, so that the Retirement System can continue to meet its obligations to participants.

Sincerely,



Laura Wirick, CFA, CAIA
Vice President



Stephen P. McCourt, CFA
Managing Principal



Brad Regier, CFA, CAIA
Vice President

LBW/cds

Statement of Investment Policy

The following policy applies to both
Pension and Healthcare Trusts

General Environment

It is the policy of the San Jose Federated City Employees' Retirement System (SJFCERS) to effect economy and efficiency in the public service by providing a means whereby career employees or employees who have become incapacitated may leave public service without hardship or prejudice, and to that end provide a retirement system consisting of retirement allowances and death benefits.

Investments in such retirement system are subject to the restrictions specified in the San Jose Retirement Code sections 3.24.350, 3.24.360, 3.28.350 and 3.28.355. Further investment management guidelines are imposed by the San Jose Federated City Employees' Retirement Board ("Board"). The Board retains its official oversight of the System but has designated the Investment Committee to act as a conduit for investment issues to be presented to the Board.

Purpose

The purpose of this Investment Policy Statement (IPS) is to assist the San Jose Federated City Employees' Retirement System's Board ("Board") and its delegate in effectively supervising, monitoring and evaluating the investment of the System's assets. The System's investment program is defined in the various sections of the IPS by:

- Stating in a written document the Board's attitudes, expectations, objectives and guidelines for the investment of all the System's assets.
- Setting forth an investment structure for managing the System's assets. This structure includes various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce a sufficient level of overall diversification and total investment return over the long-term.
- Providing guidelines for the investment system that control the level of overall risk and liquidity assumed in that system, so that all the System's assets are managed in accordance with stated objectives.
- Encouraging effective communications between the Board, the investment consultant (Consultant) and the money managers.
- Establishing formalized criteria to monitor, evaluate and compare the performance results achieved by the money managers on a quarterly basis, or as deemed appropriate.
- Complying with applicable fiduciary, prudence and due diligence requirements that experienced

investment professionals would utilize, and with applicable laws, rules and regulations from various local, state, federal and international political entities that may impact the System's assets.

This IPS has been formulated, based upon consideration by the Board of the financial implications of a wide range of policies, and describes the prudent investment process that the Board deems appropriate.

The objectives of the System have been established in conjunction with a comprehensive review of the current and projected financial requirements. The Board shall:

- (1) Attempt to ensure that the Retirement System is sufficiently funded to ensure that all present and future disbursement obligations will be met.
- (2) Attempt to ensure that the investment earnings be sufficiently high to provide a funding source, along with contributions from City employees and the City, in order to offset liabilities in perpetuity.
- (3) Strive for the highest total return on investment funds consistent with safety in accordance with accepted investment practices and maintain an appropriate asset allocation policy that is compatible with the objectives of the System.
- (4) Control the costs of administering the System's assets and managing the investments.

Asset Allocation Policy

The following policy has been identified by the Board as having the greatest expected investment return and the resulting positive impact on asset values and funded status without exceeding a prudent level of risk. The Board determined this policy after evaluating the implications of increased investment return versus increased variability of return for a number of potential investment policies with varying commitments to asset classes.

It shall be the Policy of the System to invest its assets in accordance with the maximum and minimum range, valued at market value, for each asset class as stated below:

Long-term Asset Allocation - Pension Trust

| Broad Asset Class | Minimum | Target | Maximum |
|---|---------|-------------|---------|
| Equity (Public and private equity, and real estate) | 38% | 45% | 52% |
| Fixed Income (Public and private debt) | 5% | 10% | 20% |
| Hedge Funds | 20% | 25% | 30% |
| Real Assets | 15% | 20% | 25% |
| Total | | 100% | |

Statement of Investment Policy (Continued)

Long-term Asset Allocation - Healthcare Trust

| Broad Asset Class | Minimum | Target | Maximum |
|-------------------|---------|-------------|---------|
| Global Equity | 53% | 59% | 65% |
| Fixed Income | 23% | 28% | 33% |
| Real Assets | 8% | 13% | 18% |
| Cash | 0% | 0% | 0% |
| Total | | 100% | |

The investment policy is expected to have a high likelihood of meeting the objectives outlined in the "Statement of Objectives" section, which preceded this section.

The Investment Policy, including asset allocation, is intended to provide a means for controlling the overall risk of the portfolio while ensuring that investment earnings will be sufficiently high to provide a funding source to offset liabilities in perpetuity. The policy should not unduly constrain the discretionary, tactical decision-making process of the investment managers so that the funds earn the highest total returns while remaining in accordance with accepted investment practices.

The Investment Policy and the asset allocation are generated using certain market assumptions. These assumptions include the expected return and standard deviation for each asset category and the expected correlation coefficients among asset classes. When these presumptions change, the policy needs to be re-evaluated and possibly modified to compensate for those changes.

Time Horizon

The asset allocation ranges established by this investment policy represent the long-term perspective. As such, rapid unanticipated market shifts or changes in economic conditions may cause the asset mix to fall outside the policy range. These divergences should be of a short-term nature. The Director of Retirement Services will review the asset mix of the Plan on a monthly basis and cause the asset mix to be rebalanced to within the policy range as necessary and in accordance with the rebalancing guidelines set forth in this IPS. Additionally, the Board will review the strategic asset allocation on at least an annual basis to determine if there is a need to make any changes.

Risk Tolerances and Volatility

The Board recognizes the difficulty of achieving the System's investment objectives in light of the uncertainties and complexities of contemporary investment markets. The Board also recognizes that some risk must be assumed to achieve the System's long-term investment objectives.

In establishing the risk tolerances of the IPS, the ability

to withstand short and intermediate term variability were considered.

Consistent with the desire for adequate diversification, the Investment Policy is based on the expectation that the volatility (the standard deviation of returns) of the total System will be similar to that of the market. Consequently, it is expected that the volatility of the total System will be reasonably close to the volatility of a commitment weighted composite of market indices.

Re-balancing of Strategic Allocation

The System's asset allocation will be reviewed relative to the targets on a semi-monthly basis and action will be taken to re-balance to within the target ranges by means of asset transfers among the categories.

When necessary and/or available, cash inflows/outflows will be deployed in a manner consistent with the strategic asset allocation of the System.

General guidelines for re-balancing the portfolio are as follows:

- (1) When the allocation to a particular asset class deviates from its target, the asset class will be re-balanced to within the policy range over the following 60 days. The cash surplus within the Fund will be used to rebalance the portfolios. If the cash surplus is not sufficient, the following rebalancing procedures shall be implemented.
- (2) Transfers shall first be taken from asset classes above the maximum range, then from asset classes above the target but below the maximum. If there is only one manager in the asset class, transferred assets shall first consist of cash in the portfolio. If the cash is not sufficient, then the manager will be requested to liquidate that portion of the portfolio, which will result in the manager's portfolio coming within the specific target range.
- (3) Transfers shall first be made to asset classes below the minimums, then to asset classes below the targets, unless the managers in those classes are already holding excess cash or they feel it would be imprudent to increase their size.
- (4) All transfers should be made in accordance with the cash management policy.
- (5) Rebalancing for asset classes that have deviated from their targets, but are still within their respective target ranges, may remain at their allocations if the Director and Consultant determine it would not be detrimental to the overall portfolio.

Statement of Investment Policy (Continued)

Liquidity

The Board has authorized the Director of Retirement Services to review the projected cash flow needs of the System at least annually and indicate to the investment managers the required liquidity. If necessary, cash flow needs will be coordinated through the System's rebalancing procedures as described in the previous section. If additional funds are required from the System's equity managers, the Director will communicate the cash flow requirements giving advanced written notice so the managers have sufficient time to comply.

Diversification

Investments shall be diversified with the intent to minimize the risk of large investment losses. Consequently, the total portfolio will be constructed and maintained to provide prudent diversification with regard to the concentration of holdings in individual issues, issuers, or industries.

Specifically, no single investment shall exceed the guidelines established under the Manager and Securities Guidelines section.

As a general rule, System assets placed with an investment manager should not represent more than 10% of that manager's assets.

General

Every investment manager selected to manage the System's assets must adhere to the following guidelines.

- The investment manager will at all times be expected to exercise due diligence regarding his/her account and to perform in a prudent manner and within the specific terms of appointment.
- The manager will have full discretion to direct and manage the investment and reinvestment of assets in accordance with this document, applicable federal and state statutes and regulations, and the executed contract.
- Benchmarks shall be specified for the investment manager. It is expected that the managers will adhere to the style concepts and the investment principles that were in use at the time the Board appointed the firm to manage a portion of the System's assets.
- It is the Board's desire that an investment manager be fully invested in his/her own asset class. However, the manager shall retain the discretion to invest a portion of the assets in cash reserves. The Board prefers that the managers hold under 6-7% cash. Any manager who holds over 7% in cash on average over two months shall notify staff in writing.

If market conditions dictate, the manager may exceed 10% cash holdings with written approval of the Director of Retirement Services. The manager will be evaluated against their peers on the performance of the total assets under their management. Any intent to deviate from this strategy should be communicated to the Board prior to implementation.

- Turnover standards shall be set whenever it is appropriate to the investment manager's style, the asset class, or the return target. Trading expenses shall be minimized and managed by the investment manager and all transactions shall be governed by general "best execution" guidelines.
- Transactions that would jeopardize the tax-exempt status of the System should not be undertaken.
- The Board has the authority to "vote" on all issues presented to stockholders, but as a matter of practice will designate an authorized third party to vote the proxies. It is expected that the designee will vote for the sole purpose of benefiting the beneficiaries of the System and in accordance with the adopted general proxy voting guidelines.
- The investment manager is expected to comply with all laws, regulations, and standards of ethical conduct.

Global Equity Investments

The primary emphasis of the global equity portfolio should be on high quality, readily marketable securities. The investment managers employed to manage equity securities will have discretion in the day-to-day management of funds under their control, subject to the following guidelines:

- (1) Global equity securities (with the exception of preferred stocks) shall be traded on a national exchange (including NASDAQ) and be substantially diversified.
 - The number of issues held, their geographic and economic sector diversification shall be left to the investment manager's discretion provided, however, that the portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.
- (2) The following transactions are prohibited:
 - Purchase of stocks that are not publicly traded.
 - Purchase of restricted stock.
 - Short sales and purchases of securities on margin.

Statement of Investment Policy (Continued)

- (3) American Depositary Receipts (ADR's) and Real Estate Investment Trusts are permitted equity investments.
- (4) The manager may enter into currency exchange contracts (forward exchange or future) provided that such contracts have a maximum maturity of one year. Furthermore, any currency hedging shall be limited to a defensive posture only. The use of such contracts is designed to dampen portfolio volatility rather than lever portfolio risk exposure. There shall be no direct foreign currency speculation or any related investment activity. Cross-hedging will be permitted. Securities held in the portfolio may be denominated in any currency at the discretion of the investment manager. The investment manager will include in his/her quarterly report to the Director of Retirement Services and the Board a report on the status of the outstanding hedged positions.

Cash Investments

The following investment vehicles are approved for the investment of short-term funds of the System:

- (1) All U.S. Government and federal agency issues.
- (2) All U.S. Dollar denominated foreign commercial paper that is rated either A1 or P1 by Moody's or by Standard & Poor's. If the issuer had public debt outstanding, said debt should not be rated below the top three letter ratings (AAA, AA, A) of either Moody's or Standard & Poor's.
- (3) If the issuer of commercial paper (CP) is a bank, purchase of its CP is approved only when purchase of its certificates of deposit (CD's) is also approved.
- (4) Domestic and foreign Certificates of Deposit (CD's) and Banker's Acceptances.
- (5) Repurchase Agreements with banks and with broker-dealers registered under the Securities and Exchange Act of 1934.
- (6) Reverse Repurchase Agreements - Only upon the specific approval of the Retirement Board.
- (7) Insured time deposits.
- (8) The custodial bank's Short Term Investment Fund provided that said Fund satisfies the requirements of 1 through 7 above.

Investment Grade Fixed Income

The investment grade fixed income portion of the System's assets shall generally be invested in investment grade, marketable, fixed-income securities, although up to 10% investment in below investment grade securities will be permitted with written authorization of the Board. The investment managers employed to manage domestic fixed-income securities will have discretion in the day-to-day management of the funds under their control.

The following instruments are acceptable for purchase:

- (1) Commercial Paper or Variable Rate notes of P-1 or equivalent rating. Pools containing lower quality issues of this security type (P-2 and P-3 or equivalent ratings) may be used where diversification reduces the quality risk.
- (2) Certificates of Deposit and Bankers Acceptances.
- (3) United States Treasury Bonds, Notes, and Bills.
- (4) Repurchase agreements with U.S. Treasury securities and agencies of the U.S. Government as collateral. No reverse repurchase agreements will be allowed without specific written approval by the Board.
- (5) Debt instruments of the U.S. Government or its agencies.
- (6) "Yankee" bonds issued by foreign countries and denominated in dollars so long as they are rated Baa/BBB or better by Moody's or Standard & Poor's.
- (7) Investment grade U.S. pay corporate debt issues including those rated Baa/BBB or better by Moody's or Standard & Poor's. Should a current holding fall below this standard, the manager shall immediately notify staff of the downgrade and confer with staff as to whether the security will continue to be held or disposed. However, investments in non-investment grade securities of BB or B classification will be permitted up to 10% with written authorization of the Board.

The Fixed-income investments shall be appropriately diversified. The investment manager may engage in "active" bond management and it is therefore anticipated that there may be turnover as shifts are made between and within sectors, quality and maturity.

No more than 10% of a single manager's assets shall be invested in securities of any single issuer with the exception of the U.S. Government and its agencies.

Statement of Investment Policy (Continued)

High Yield Fixed Income and Bank Loans

The High Yield Bonds and Bank Loans portion of the plan assets shall be invested predominantly in below investment grade securities and bank loans. The investment managers employed to manage high yield and bank loan instruments will have discretion in the day-to-day management of funds under their control. The High Yield and bank loan managers shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

- (1) U.S. corporate bonds, including zero-coupon, step-up, convertible, toggle and pay-in-kind bonds and Non-dollar corporate bonds (which should be hedged), Private placement securities, bank loans, participations and assignments.
- (2) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds/ euro bonds).
- (3) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.
- (4) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.
- (5) The number of issues held, the sector and the industry diversification constraints shall be detailed in each manager's investment guidelines. The portfolio shall be appropriately diversified as consistent with the manager's stated investment approach.

Convertible Bonds

The convertible bonds portion of the plan assets shall be invested predominantly in convertible securities. The Manager may invest in investment grade or below investment grade U.S. and non- U.S. convertible securities, including convertible bonds, convertible preferred stock, bonds or preferred stock with warrants, and zero-and low-coupon convertibles across the entire credit quality spectrum. In addition, the investment manager can utilize convertible structured notes issued by third parties, as well as synthetic convertible securities created by the investment manager. The investment manager(s) employed to manage the convertible instruments will have discretion in the day-to-day management of funds under their control. The convertible bond manager(s) shall have discretion to invest in all the instruments allowed for investment by the domestic bond managers, plus the investments that meet the following criteria:

- (1) At the time of purchase at least 95% of the instruments must have a minimum rating of B- or B3, or if unrated, of a comparable quality rating as determined by the investment manager. Should more than 5% of a portfolio fall below this standard, the investment manager shall notify the Board of the downgrade immediately and submit a plan for returning the portfolio to the standard. Other eligible investments are U.S. Treasuries, U.S. corporate bonds, (including zero-coupon, step-up, toggle and pay-in-kind bonds), non-U.S. corporate bonds, private placement securities, bank loans, participations, and assignments.
- (2) U.S. dollar denominated bonds issued by entities not domiciled in the United States (Yankee bonds/ euro bonds).
- (3) U.S. Treasury futures, currency forward or futures contracts, and credit default swaps may be used for hedging purposes.
- (4) No more than 3% of the portfolio shall be invested in obligations of a single non-governmental issuer.
- (5) The portfolio shall be appropriately diversified by the number of issues held, sector, industry, and country weightings, consistent with the manager's stated investment approach.

Real Estate

The Board may elect to invest in commercial, industrial, and residential real estate or real estate related debt instruments provided that:

- (1) The real estate is defined as any real property within the United States improved by multifamily dwelling, industrial or commercial buildings.
- (2) Real estate debt instruments shall be defined as first mortgages.
- (3) The fund shall at no time invest directly more than 5% of the Fund's assets, valued at market, in any one property, project, or debt instrument regardless of the manner of the instrument.

Private Equity

Private markets investments include, but are not limited to, venture capital partnerships, leveraged buyout funds, private debt, and private placements. While it is expected that the majority of these assets will be invested within the United States, a portion can be allocated to non-U.S. investments. Investments may be made in secondary investments on an opportunistic basis.

Statement of Investment Policy (Continued)

It is expected that these investments will typically be structured as Limited Partnerships, with the System serving as one of the Limited Partners, but not as a General Partner. It is also expected that the System will not engage in direct investments or co-investments, in which the System would purchase majority control in individual corporate entities, unless authorized by the Board.

Opportunistic Strategies

Investment in any of the instruments or vehicles allowed in other sections is also allowed in this section. Other investments are acceptable as long as they are approved by the Board in writing. In addition, investment in the credit market is also allowed and may be implemented through:

1. Pooled funds; Separate accounts; Limited Partnerships; or Limited Liability Companies;
2. Credit linked notes;
3. Direct investment.

Absolute Return

Absolute Return Funds, also called Hedge Funds, are private investment vehicles that may not be registered with the U.S. Securities and Exchange Commission (SEC); they may be offered in Limited Partnerships or Limited Liability Company form.

The allowed Absolute Return Strategies include but are not limited to :

1. Any of the following single strategies:
 - a. Equity long/short including absolute return strategies specializing in emerging markets, market capitalization, regional, sectoral or global market subsets;
 - b. Equity Market timing;
 - c. Short or dedicated short;
 - d. Distressed securities;
 - e. Merger Arbitrage;
 - f. Event driven or Risk Arbitrage;
 - g. Fixed Income Arbitrage;
 - h. Convertible Bond Arbitrage;
 - i. Equity Market Neutral;
 - j. Statistical Arbitrage;
 - k. Relative Value Arbitrage;
 - l. Global Macro or Global Tactical Asset Allocation;
 - m. Managed Futures and Commodity Trading Advisors (CTA's).

2. Multi-Strategy or Fund of Funds are also allowed and combine several individual Absolute Return strategies into a single portfolio. The combination provides, in some circumstances, diversification of risk in a single investment.

Real Assets

The following strategies are allowed, through both direct investments and through equity investments in companies that are involved with the following strategies:

a. Commodities

The strategy targets liquid investments in the commodities markets via derivatives (e.g. futures and swaps). Certain strategies may also include, to a lesser extent, investment in physicals for forward delivery. Exposure includes four major commodity market sectors: Energy, Agriculture/Livestock, Industrial Metals, and Precious Metals. Expected total return is due primarily to spot price appreciation; secondarily to contract roll forward dynamics, or the differential between spot and future price (between near and longer term contracts); and thirdly to modest collateral income.

The Real Asset program may employ both passive and active commodity management. Examination of cash collateral, in particular the quality of fixed income market exposure, will be considered in risk mitigation.

b. Energy

The strategy targets both public and private energy-related entities. The Energy investment strategy consists of three segments: upstream, midstream, and downstream businesses. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific Energy market segment. Investments may include both traditional (oil, natural gas, coal) and alternative (wind, solar) energy sources.

The Upstream Investment Strategy focuses on the production of oil and gas, and includes petroleum Exploration and Production (E&P) businesses and power generation.

The Midstream Investment Strategy focuses on transporting the upstream products from the source to the end user, and includes storage and processing, as well as oilfield services (the equipment and services required to produce petroleum) and electricity transmission equipment and services. Midstream assets include pipelines, gathering and storage facilities, refining, power lines, and transformer stations. Services are also considered midstream elements, such as oilfield equipment like drill bits, drill rigs, well trees, and geologic and mapping services.

Statement of Investment Policy (Continued)

The Downstream Investment Strategy focuses on the end users of upstream production. Power generation is an end user of petroleum products, while households and businesses are the downstream users of power generation. Downstream assets can also be local distribution centers, such as home heating oil distributors or gas stations.

Each segment of the strategy has different investment characteristics, income profiles, and risks.

c. Metals & Mining

Public equities in the Industrial and Precious metals-related industries.

Investment opportunities include large core diversified global conglomerates and more specific, concentrated investments. Supply chain position may include upstream, midstream, and downstream companies. Expected total return is due primarily to appreciation and some income.

d. Public Agriculture-related

These investments are made primarily in Agriculture-related companies. Exposure may include both traditional agriculture and livestock investments and renewable energy sources. Supply chain position may include upstream, midstream, and downstream companies. Equity-based agriculture exposure ranges from upstream producing companies (i.e. growers) or those who are closely related to them, such as seed and agricultural chemicals companies, to downstream packaged foods producers. Opportunities include core diversified global conglomerates that may span across segments and specific, concentrated satellite investments that may focus on a specific market segment. Expected total return is due primarily to appreciation and some income.

e. Timberland

The strategy targets both public and private Timberland Investment Management Organizations, TIMO. The Investment strategy includes investing in entities that derive their returns from the growth and harvest of timber, a renewable and biologically growing asset. The investments may include both plantations who utilize intensive management techniques to enhance biological growth and naturally regenerating strategies. The investment strategy has varying time horizons to liquidity, shorter term for softwoods (e.g. for pulp and lumber) to longer term time horizon (e.g. hardwoods).

f. Infrastructure

Public and private investments in direct physical assets, or a company that operates assets that provide essential services to society. Ranges from publicly held equities to very illiquid private partnerships. Exposure includes toll-oriented projects (e.g. roads, bridges, tunnels), transport-focused (e.g. railroads, airports, seaports), regulated utilities (e.g. gas pipelines, water/sewer treatment facilities), and social services (e.g. schools, hospitals). High toll-orientation offers inflation protection. Expected total return is due primarily to current income and to a lesser extent capital appreciation. Satellite strategies typically use more leverage than core.

Typically, infrastructure assets exhibit one or more of the following qualities: monopolistic or quasi-monopolistic, high barriers to entry, long term assets, and significant regulatory or permitting constraints.

g. Farmland/Agribusiness

This investment strategy targets the market segment of agriculture. Farmland consists of two main property types: row and permanent crop properties. Row crops are harvested from soil and are categorized as commodity, (corn and soybean) and vegetable, (potatoes and lettuce). Permanent crops grow on trees and have three categories: citrus fruit, (oranges and grapefruits); fruit, (apples and grapes); and nuts.

h. Infrastructure

This investment strategy targets the market segment of water-related infrastructure, assets, and properties. Investors may soon view water as an increasingly scarce commodity, not unlike oil. Increasingly stringent water quality standards and the adaptation of water systems to meet changing climatic and hydrological conditions may result in investment opportunities in the water industry.

Statement of Investment Policy (Continued)

Supervision

The Investment Manager shall continually supervise the investment securities in the Fund, and shall purchase, sell, substitute, redeem, or convert securities, as they should deem advisable.

Brokerage Policy

All transactions effected for the System will be "subject to the best price and execution." The lowest commission rate need not mean the best realized price. Execution capability, price, and overall effectiveness shall be considered, along with commission rate.

Any manager who is engaged in or has a direct pecuniary interest in a business other than investment counseling, such as a broker or dealer in securities shall not be permitted to use such business with regard to the System assets without prior written approval by the Board.

If a manager utilizes brokerage from the plan assets to effect "soft dollar" transactions, detailed records will be kept and communicated to the Board.

The System's investment managers shall follow the direction of the Board. It is the policy of the Board to instruct the investment managers to direct transaction orders to particular broker-dealers, including equity, fixed income, both domestic and international. The instructions from the Board currently is for the investment managers to direct as much as possible of the System's commission business as is practicable, subject to the best price and execution. The instruction and direction is to be construed within the normal activity of the investment manager, with no increased or decreased trading activity to occur because of the instruction. Where given discretion to establish and execute transactions through accounts with one or more broker-dealer firms as it may select, the manager must attempt to obtain "best available price and most favorable execution" with respect to all of the portfolio transactions.

Soft dollars accumulated through the System's brokerage program may be used to pay for any System expense permitted under the regulations of the Department of Labor (including, but not limited to, legal, accounting, education, management, etc.) and approved by the Board.

Performance Objectives

Investment performance will be measured quarterly but it is not expected that the performance goals identified below will be satisfied in any single quarter or year. It is expected that these goals will be satisfied over a rolling five-year period or a full market cycle. However, action by the Board with regard to retention or dismissal of investment managers is not precluded by virtue of these time periods.

Total Fund Investments

The total fund's performance, in aggregate, will be expected to achieve a rate of return, which exceeds a fund benchmark representative of the Asset Allocation objective as follows:

Benchmark

| |
|--|
| Russell 3000 |
| MSCI ACWI |
| MSCI EAFE |
| MSCI Emerging Markets |
| Barclays Capital Aggregate Bond Index |
| Credit Suisse First Boston Leveraged Loan Index |
| Merill Lynch High Yield Master Index |
| Merill Lynch Global 300 Convertible Index |
| NGREIF Property Index |
| Venture Economics Private Equity Index |
| Hedge Fund Research Institute Equity Hedge Index |

Specific guidelines and benchmarks are established below for each category of managers. Generally, however, investment managers are expected to perform within the top half of an appropriate database, rank in the top half of a database of similarly styled managers, and earn an average return, which exceeds an appropriate index over rolling five year periods.

Managers are considered to have achieved this objective if their performance meets all guidelines on a cumulative five year annualized period. If the performance is longer than five years, the manager is expected to satisfy the performance objectives in a majority of the rolling five year periods.

Investment managers with less than five years of experience with the Fund are considered to have achieved performance objectives if their performance meets guidelines in the majority of the annualized time periods since inception.

If managers with less than five years experience with the Fund fail to meet any investment objectives, the following should be applied:

- If a manager fails to meet investment objectives for one or two consecutive quarters, this may not be a cause for concern.
- If a manager fails to meet investment objectives for three consecutive quarters, they merit probationary status.
- If a manager fails to meet investment objectives for four consecutive quarters, they should be critically reviewed by the Board and considered for termination. The Board may grant the manager an extended probation after officially recognizing the substandard performance.

Statement of Investment Policy (Continued)

Passive Fixed Income Investments

The objective for investment managers of the passive fixed income component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

Active Fixed Income Investments

The objectives for investment managers of the domestic fixed-income component of the total portfolio are:

- (1) Earn an average annual return from income and capital appreciation, which exceeds an appropriate index (i.e. Barclays Credit Index, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Global Equity Investments

The objectives for investment managers of the domestic equity component of the total portfolio are:

- (1) Achieve returns which exceed an appropriate index, (i.e. Russell 3000, etc.) over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Passive Equity Investment

The objective for investment managers of the passive domestic equity component of the total portfolio is to achieve returns equal to the appropriate index with minimal tracking error.

Global and International Equity Investments

The objectives for investment managers of the international equity component of the total portfolio are:

- (1) Achieve returns which exceed an appropriate index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

High Yield and Bank Loan Investments

The objective for the investment managers of the High Yield and Bank Loan component of the total portfolio are:

- (1) Achieve rates of return, which exceed an appropriate index (i.e. Merrill Lynch US High Yield Master Index, CSFB Leveraged Loan Index) over rolling five year time periods net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Convertible Bond Investments

The objective for the investment managers of the Convertible Bond component of the total portfolio are:

- (1) Achieve rates of return, which exceed the Merrill Lynch Global 300 Convertible Index over a rolling five year time period net of fees. If the performance history extends beyond five years, the manager will be required to exceed the index over a majority of the rolling five year periods.

Real Estate Investments

- (1) Achieve returns which exceed an appropriate index, (i.e. NCREIF) net of fees over a five-year market cycle.

Private Equity Investments

- (1) Achieve returns, which exceed an appropriate index (i.e., Venture Economics Private Equity Index) net of fees over a five-year market cycle.

Real Assets

- (1) Achieve returns which exceed an appropriate index (i.e., Dow-Jones UBS Commodity Index, SSgA Brookfield Infrastructure Index) net of fees over a five-year market cycle.

Hedge Funds

- (1) Achieve returns which exceed an appropriate index (i.e., HFRI Equity Hedge Index) net of fees over a five-year market cycle.

Monitoring of Money Managers

It is the Board's policy to monitor the portfolios of the investment managers for prudent adherence to the approved performance guidelines. Quarterly performance should be evaluated to test progress toward the attainment of longer term targets. It is understood that there are likely to be short term periods during which performance deviates from market indices. During such times, greater emphasis shall be placed on peer-performance comparisons with managers employing similar styles. In addition, manager holdings will be periodically monitored to ensure that they are adhering to expected investment styles and disciplines.

Statement of Investment Policy (Continued)

On a timely basis, the Board shall meet to focus on:

- Manager's adherence to the IPS guidelines;
- Material changes in the manager's organization, investment philosophy and/or personnel; and,
- Comparisons of the manager's results to appropriate indices and peer groups as described in the performance objectives and control section.

The risk associated with the manager's portfolio, as measured by the variability of quarterly returns (standard deviation), must not exceed that of the benchmark index and the peer group without a corresponding increase in performance above the benchmark and peer group.

Major organizational changes also warrant immediate review of the manager, including:

- Change in professionals
- Significant account losses
- Significant growth of new business
- Change in ownership

The performance of the System's investment managers will be monitored on an ongoing basis and it is at the Board's discretion to take corrective action by replacing a manager if they deem it appropriate at any time.

Periodic Reviews of Manager Performance

The performance of each manager should be reviewed versus its benchmark at least every quarter. These benchmarks will normally consist of both asset class indexes and peer group universes. Each manager's performance should exceed their passive index benchmark net of fees and each manager should be above the median of an appropriate universe over most full market cycles.

As good managers will occasionally have poor performance for several periods, there is some grace period permitted for performance to improve. Conversely, the performance should be reviewed with sufficient frequency to permit identification of substandard performance as quickly as possible.

All managers will be reviewed continuously by the Consultant, Staff, and the Director. Underperforming managers will be reviewed on a case by case basis, and written records shall be kept. All managers are subject to termination at the Board's request, based on advice from the Consultant, Staff, and the Director.

Extraordinary Reviews of Managers

If an event occurs within a manager's organization or is likely to impact the manager's organization, the Director of Retirement Services, shall make a determination whether such event compromises the investment process or in any other manner might negatively impact the management of the System's assets.

Such events would include but are not limited to:

- a) Loss of any significant investment professional directly involved with the management of Plan assets or of such significance to the manager's overall investment process as to call into question the future efficacy of that process.
- b) Sale, offer for sale, or offer to purchase the manager's business to/by another entity.
- c) Significant financial difficulty or loss of a sizable portion of the manager's assets under management.
- d) Filing or announcement of regulatory action of non-trivial nature, particularly that involving violations of the Investment Advisers Act of 1940, the Securities Act of 1933, or the Securities Exchange Act of 1934, or any state Blue Sky Law to which the manager is subject.
- e) Any other event which in the discretion of the Director appear to put the System's assets at risk of loss, either actual or opportunity.

Any of these events may trigger a due diligence visit to the firm by the Investment Committee, Consultant, and/or Staff, being placed on the watch list, being put on probation or termination depending on the seriousness of the event and the probability of impacting the management of the System's assets.

Please visit <http://www.sjretirement.com/Fed/Investments/Investments.asp> for a complete and most current Statement of Investment Policy.

Investment Professionals

As of June 30, 2012

Global Equity

Artisan Partners LP
Global Value Equity
San Francisco, CA

Calamos
Global Convertibles
Naperville, IL

Northern Trust Global Investments
MSCI ACWI Index
Chicago, IL

Vanguard (Healthcare Trust)
Russell 3000
Developed Markets Index
Emerging Markets Stock Index
Valley Forge, PA

International Equity

Russell Investments
MSCI EAFE Growth
MSCI EAFE Small Cap
Seattle, WA

Emerging Equity

Northern Trust Global Investments
MSCI Emerging Markets Index
Chicago, IL

Domestic Equity

Eagle Asset Management
Small Cap Growth
St. Petersburg, FL

Northern Trust Global Investments
Russell 3000 Index
Chicago, IL

RS Investments
Small Cap Value
San Francisco, CA

Private Equity

Great Hill Partners
Boston, MA

Pantheon Ventures
San Francisco, CA

Partners Group (US) LP
New York, NY

Pathway Capital Management, LLC
Irvine, CA

Domestic Fixed Income

MacKay Shields LLC
High Yield Active Core
New York, NY

Northern Trust Global Investments
Long Term Credit Bond Index
Chicago, IL

Russell Investments
Barclays U.S. TIPS
Seattle, WA

Seix Investment Advisors LLC
Credit Distraction
Upper Saddle River, NJ

Vanguard (Healthcare Trust)
Total Bond Market Index
Inflation-Protected Securities
Valley Forge, PA

Infrastructure

Russell Investments
S&P Global Infrastructure Swap
Seattle, WA

Commodities

First Quadrant (Pension &
Healthcare Trusts)
Risk Parity Commodity Index
Pasadena, CA

Credit Suisse (Pension &
Healthcare Trusts)
Compound Risk Parity Commodity Index
San Francisco, CA

Real Estate

American Realty Advisors
Glendale, CA

DRA Advisors, Inc.
New York, NY

Fidelity Investments
Boston, MA

GE Asset Management
Stamford, CT

Prudential Real Estate Investors
Newark, NJ

Opportunistic

GSO Capital Partners
Direct Lending Account
New York, NY

Medley Capital LLC
Opportunity Fund II
San Francisco, CA

White Oak Global Advisors, LLC
Direct Lending Account
San Francisco, CA

Consultants

Albourne America LLC – Absolute Return
San Francisco, CA

Meketa Investment Group
– General Consultant
Carlsbad, CA

Custodian

State Street Bank & Trust Company
Boston, MA

Proxy Voting

Glass Lewis & Co. LLC
San Francisco, CA

Portfolio Overlay Services

Russell Investments
Seattle, WA

Schedule of Investment Results for Pension Trust

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For the Fiscal Year Ended June 30, 2012

| | One Year | Three Years | Five Years | Ten Years |
|---|----------|-------------|------------|-----------|
| Total Fund (gross of fees) | -2.4% | 9.8% | 1.3% | 6.4% |
| Total Fund (net of manager fees) | -2.5% | 9.6% | 1.1% | 6.1% |
| Total Fund With Overlay (gross of fees) | -3.0% | 9.6% | 1.2% | 6.4% |
| Total Fund With Overlay (net of manager fees) | -3.2% | 9.4% | 1.0% | 6.1% |
| Policy Benchmark | -2.3% | 10.1% | 1.9% | 6.1% |
| Master Trust Public Funds > \$1 Billion (Median) | 1.1% | 11.9% | 1.9% | 6.6% |
| Total Global Equity | -7.1% | N/A | N/A | N/A |
| MSCI ACWI IMI | -6.9% | 11.3% | -2.4% | 6.2% |
| Total Private Equity | 9.7% | 13.2% | 4.7% | N/A |
| Venture Economics PE Composite (lagged one quarter) | 9.6% | 17.1% | 6.3% | 10.5% |
| Total Real Estate | 12.1% | -0.3% | -3.6% | 7.1% |
| NCREIF Property Index (lagged one quarter) | 12.1% | 8.9% | 2.6% | 8.3% |
| Total Public Fixed Income | 7.8% | 9.4% | 7.7% | 6.8% |
| Barclays U.S. TIPS | 11.7% | 9.6% | 8.4% | 7.2% |
| Barclays U.S. TIPS 1-5 Year | 1.7% | 4.8% | 5.1% | N/A |
| Barclays Intermediate Government Bond Index | 5.0% | 4.4% | 5.8% | 4.6% |
| Total Private Debt | 13.6% | N/A | N/A | N/A |
| 3-month LIBOR + 5% | 5.5% | 5.4% | 6.7% | N/A |
| Total Real Assets | -10.9% | N/A | N/A | N/A |
| Custom Risk Parity Benchmark | -9.5% | N/A | N/A | N/A |
| S&P Global Infrastructure Index | -4.2% | 10.5% | -1.8% | N/A |
| Dow Jones Commodities U.S. Index | -14.4% | 3.4% | -4.4% | 3.8% |
| CPI-U + 5% | 6.7% | 7.2% | 7.0% | 7.6% |

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report dated June 30, 2012

Schedule of Investment Results for Healthcare Trust

GROSS PERFORMANCE SUMMARY BY ASSET CLASS

For the Fiscal Year Ended June 30, 2012

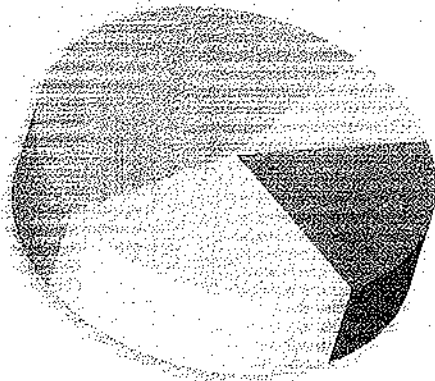
| | 2Q2012 | Calendar YTD | One-Year | Since Inception |
|---|--------------|--------------|-------------|-----------------|
| Total Fund (net of manager fees) | -3.1% | 4.2% | 0.6% | 0.6% |
| Policy Benchmark | -3.0% | 4.2% | -2.1% | -2.1% |
| Total Global Equity | -5.3% | 6.4% | N/A | 5.3% |
| Global Equity HC Policy Benchmark | -5.5% | 6.0% | -6.4% | 5.8% |
| MSCI ACWI IMI | -5.7% | 5.8% | -6.9% | 5.5% |
| Total Fixed Income | 2.6% | 3.1% | N/A | 3.8% |
| Fixed Income HC Policy Benchmark | 2.6% | 3.1% | 9.4% | 3.8% |
| Barclays Aggregate | 2.1% | 2.4% | 7.5% | 3.5% |
| Barclays U.S. TIPS | 3.2% | 4.0% | 11.7% | 4.1% |
| Total Real Assets | -5.4% | -4.5% | N/A | -14.2% |
| Custom Risk Parity Benchmark | -4.2% | -2.7% | -9.5% | -12.2% |

Basis of Calculation: Time-Weighted Rate of Return

Source: Meketa Investment Group's Fund Evaluation Report
dated June 30, 2012

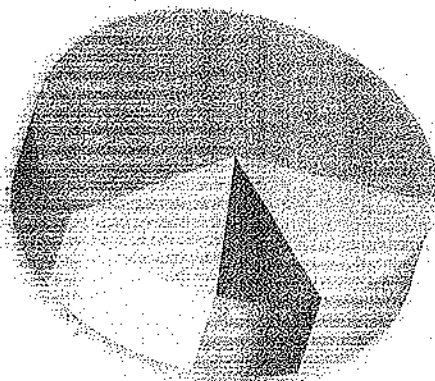
Investment Review

TARGET ASSET ALLOCATION As of June 30, 2012



| | |
|---|---------------|
| Equity (Public and private equity, and real estate) | 45% |
| Fixed Income | 10% |
| Real Assets | 20% |
| Hedge Funds | 25% |
| TOTAL | 100.0% |

ACTUAL ASSET ALLOCATION (Dollars in Millions) As of June 30, 2012

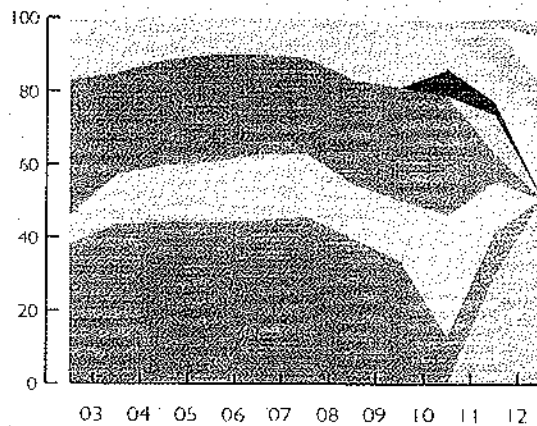


| | \$ in millions | |
|---|--------------------|---------------|
| Equity (Public and private equity, and real estate) | \$ 1,103.35 | 61.7% |
| Fixed Income | \$ 287.34 | 16.1% |
| Real Assets | \$ 153.87 | 8.6% |
| Short Term Investment Funds | \$ 242.85 | 13.6% |
| TOTAL | \$ 1,787.41 | 100.0% |

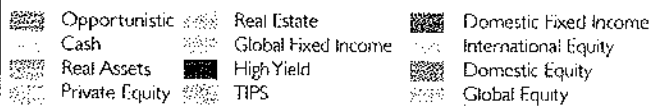
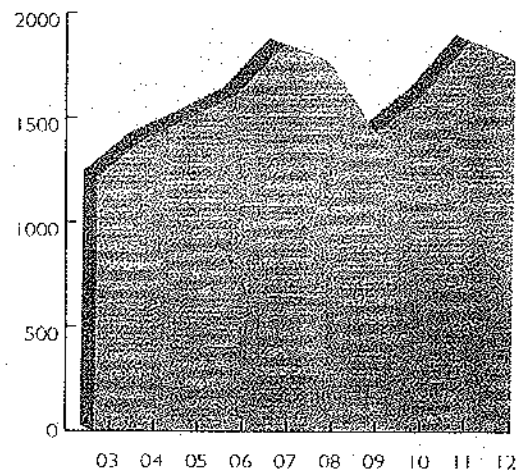
Non-GAAP Basis

Investment Review (Continued)

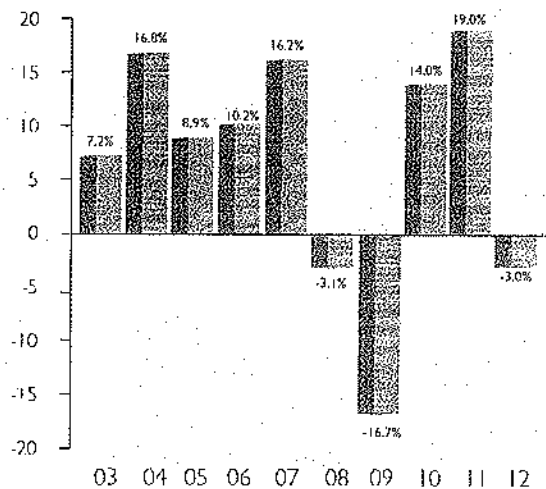
HISTORICAL ASSET ALLOCATION (Actual)
June 30, 2003-June 30, 2012



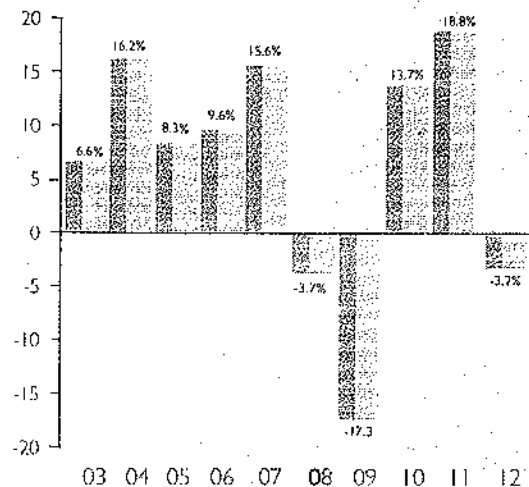
MARKET VALUE GROWTH OF PLAN ASSETS
For Ten Years Ended June 30, 2012 (Dollars in Millions)



HISTORY OF GROSS PERFORMANCE FOR FISCAL YEARS 2003 - 2012
(Based on Market Value)



HISTORY OF NET PERFORMANCE FOR FISCAL YEARS 2003 - 2012
(Based on Market Net Value)



List of Largest Assets Held

LARGEST STOCK HOLDINGS (By Market Value) For
both Pension and Healthcare Trust As of June 30, 2012

| Description | Country | Shares | Market Value (\$US) |
|--|-------------------|---------|---------------------|
| VANGUARD RUSSELL 3000 INDEX (VRTTX) * | United States | 50,629 | \$ 6,133,638 |
| VANGUARD DEVELOPED MARKETS INDEX (VIDMX) * | Various Countries | 641,129 | \$ 5,609,875 |
| COMPASS GROUP PLC | United States | 395,271 | \$ 4,147,552 |
| ORACLE CORP | United States | 110,342 | \$ 3,277,157 |
| GOOGLE INC CL A | United States | 5,582 | \$ 3,237,951 |
| TE CONNECTIVITY LTD | United States | 101,361 | \$ 3,234,430 |
| ARCH CAPITAL GROUP LTD | United States | 79,217 | \$ 3,144,123 |
| DIAGEO PLC | United States | 119,581 | \$ 3,079,684 |
| ACN PLC | United States | 65,330 | \$ 3,056,137 |
| BANK OF NEW YORK MELLON CORP | United States | 137,878 | \$ 3,026,422 |

A complete list of portfolio holdings is available upon request.

* Represents investments in the Healthcare Trust portfolio

LARGEST BOND HOLDINGS (By Market Value)

As of June 30, 2012

| Security Name | Country | Maturity Date | Interest Rate | Par Value | Market Value (\$US) |
|-------------------------------|---------------|---------------|---------------|------------|---------------------|
| TSX INF FAN/B | United States | 04/15/2014 | 1.25 | 80,327,083 | \$ 82,931,287 |
| TSX INF IXNB | United States | 01/15/2020 | 1.38 | 35,727,051 | \$ 41,538,413 |
| MICROSOFT CORP | United States | 06/15/2013 | 0.00 | 2,540,000 | \$ 2,695,575 |
| SHIRE PLC | United States | 05/09/2014 | 2.75 | 1,850,000 | \$ 2,097,438 |
| ANDERSON PLANT OIL | United States | 04/05/2012 | 1.00 | 2,025,000 | \$ 2,025,000 |
| ITALKITCHEN INTERNATIONAL INC | United States | 04/15/2014 | 1.00 | 4,016,889 | \$ 2,019,883 |
| TEMASEK FINANCIAL II PR | United States | 10/24/2014 | 0.01 | 2,250,000 | \$ 1,835,274 |
| GOLD CORP INC | United States | 08/01/2014 | 2.00 | 1,500,000 | \$ 1,689,375 |
| SIEMENS FINANCIALINGS MAT | United States | 08/16/2017 | 1.05 | 1,750,000 | \$ 1,682,275 |
| SYMANTEC CORP | United States | 06/15/2013 | 1.00 | 1,635,000 | \$ 1,673,831 |

A complete list of portfolio holdings is available upon request.

Schedule of Investment Fees

For the Fiscal Year Ended June 30, 2012

| | Assets Under Management at Market Value* | Fees | Basis Points |
|--|--|---------------------|--------------|
| Investment Managers' Fees | | | |
| Global Equity | \$ 910,753,920 | \$ 2,480,131 | 27 |
| Private Equity | 96,589,741 | 1,050,762 | 109 |
| Real Estate | 96,010,542 | 1,367,162 | 142 |
| Global Fixed Income | 199,373,206 | 582,779 | 29 |
| Opportunistic | 87,968,655 | 1,026,055 | 117 |
| Real Assets | 153,867,397 | 463,684 | 30 |
| Short Term | 242,848,623 | - | N/A |
| TOTAL INVESTMENT MANAGERS' FEES | \$ 1,787,412,085 | \$ 6,970,573 | 39 |

* Includes Cash in Managers' Accounts; Non-GAAP Basis

| | Fees |
|--|-------------------|
| Other Investment Service Fees | |
| Investment Consultant | \$ 410,000 |
| Custodian Bank | 198,607 |
| Proxy Voting | 14,495 |
| Real Estate Legal Fees | 1,097 |
| Investment Legal Fees | 25,289 |
| TOTAL OTHER INVESTMENT SERVICE FEES | \$ 649,488 |

Schedule of Commissions

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|--|----------------------------|----------------------|-------------------------|
| A | | | |
| ABG SECURITIES LIMITED | 3,242,841.00 | \$ 102.03 | \$ 0.0000 |
| ALLEN & COMPANY LLC | 19,136.00 | 765.44 | 0.0400 |
| ANCORA SECURITIES INC | 1,787.00 | 71.48 | 0.0400 |
| AQUA SECURITIES LP | 17,485.00 | 349.70 | 0.0200 |
| ASSET TRANSFER | 44,832,255.06 | 2,181.95 | 0.0000 |
| AUTREPAT-DIV RE | 88,351.00 | 1,481.06 | 0.0168 |
| AVONDALE PARTNERS LLC | 6,224.00 | 205.72 | 0.0331 |
| B | | | |
| BANCO SANTANDER DE NEGOCIOS | 10,999.00 | 406.94 | 0.0370 |
| BANQUE NATIONALE DU CANADA | 35,275.00 | 1,398.06 | 0.0396 |
| BARCLAYS CAPITAL | 4,712,757.36 | 11.28 | 0.0000 |
| BARCLAYS CAPITAL INC LE | 1,694,095.00 | 8,362.86 | 0.0049 |
| BLOOMBERGTRADEBOOK LLC | 471,806.00 | 9,436.12 | 0.0200 |
| BMO CAPITAL MARKETS | 18,088.00 | 643.40 | 0.0400 |
| BNP PARIBAS SECURITIES CORPORATION | 615,363.00 | 614.52 | 0.0010 |
| BTIG, LLC | 3,243,800.00 | 790.24 | 0.0211 |
| C | | | |
| CANACCORDGENUITY CORP | 2,000.00 | 48.19 | 0.0241 |
| CANACCORDGENUITY INC | 1,238.00 | 384.96 | 0.0316 |
| CANTOR FITZGERALD & CO | 65,731.00 | 1,575.04 | 0.0240 |
| CHARLES RIVER BROKERAGE | 210.00 | 2.63 | 0.0125 |
| CIBC WORLD MARKETS CORP | 1,500.00 | 60.00 | 0.0400 |
| CIBC WORLD MKTS INC | 7,450.00 | 298.17 | 0.0400 |
| CITATION GROUP | 36,082.00 | 1,443.28 | 0.0400 |
| CITIGROUPGLOBAL MARKETS INC | 53,897,040.60 | 8,469.11 | 0.0011 |
| CITIGROUPGLOBAL MARKETS LIMITED | 30,748.00 | 615.91 | 0.0200 |
| CITIGROUPGLOBAL MARKETS UK EQUITY LTD | 17,338.00 | 83.62 | 0.0048 |
| CONVERGEXEXECUTION SOLUTIONS LLC | 183.00 | 19.32 | 0.0400 |
| COWEN ANDCOMPANY, LLC | 12,494.00 | 691.12 | 0.0395 |
| CRAIG - HALLUM | 1,800.00 | 149.00 | 0.0330 |
| CREDIT AGRICOLE INDOSUEZ CHEUVREUX | 4749.00 | 80.83 | 0.0462 |
| CREDIT AGRICOLE INVESTOR SERVICES BANK | 1,036.00 | 84.03 | 0.0811 |
| CREDIT LYONNAIS SECURITIES (USA) INC | 108,174.76 | 53.19 | 0.0005 |
| CREDIT SUISSE SECURITIES (EUROPE) LTD | 300,145.91.00 | 383.73 | 0.0000 |
| CREDIT SUISSE SECURITIES (USA) LLC | 2,983,297.00 | 3,515.11 | 0.0012 |
| D | | | |
| DAVIDSON D.A. & COMPANY INC | 2,085.00 | 601.72 | 0.0289 |
| DEN NORSKE BANK | 8,094.00 | 33.22 | 0.0055 |
| DEUTSCHE BANK SECURITIES INC | 2,988,927.03 | 2,268.52 | 0.0008 |

Non-GAAP Basis

Schedule of Commissions (Continued)

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|---|----------------------------|----------------------|-------------------------|
| D (continued) | | | |
| DOWLING & PARTNERS | 8,315.00 | \$ 332.60 | \$ 0.0400 |
| DOWLING & PARTNERS SECURITIES, LLC | 36,384.00 | 1,455.36 | 0.0400 |
| E | | | |
| EVERCORE GROUP LLC | 4,833.00 | 193.32 | 0.0400 |
| F | | | |
| FIDELITY CLEARING CANADA | 1,900.00 | 56.59 | 0.0298 |
| FIRST ANALYSIS SECURITIES CORP | 400.00 | 16.00 | 0.0400 |
| FRIEDMAN BILLINGS & RAMSEY | 41,349.00 | 1,579.36 | 0.0382 |
| G | | | |
| GTRADE SERVICES LTD | 2,100.00 | 14.72 | 0.0070 |
| GMP SECURITIES LP | 10,031.00 | 401.24 | 0.0400 |
| GOLDMAN SACHS & CO | 1,211,475,628.59 | 3,427.40 | 0.0000 |
| GOLDMAN SACHS INTERNATIONAL | 53,885.00 | 774.03 | 0.0144 |
| GUGGENHEIM CAPITAL MARKETS LLC | 9,104.00 | 364.16 | 0.0400 |
| H | | | |
| HSBC BANK PLC | 72,810.00 | 591.05 | 0.0081 |
| I | | | |
| INSTINET | 30,890.00 | 432.70 | 0.0140 |
| INSTINET U.K. LTD | 22.00 | 0.05 | 0.0023 |
| INVESTMENT TECHNOLOGY GROUP INC | 797,351.00 | 24914.81 | 0.0312 |
| INVESTMENT TECHNOLOGY GROUP LTD | 23,288.00 | 180.66 | 0.0078 |
| ISI GROUP INC | 58,141.00 | 2,325.64 | 0.0400 |
| ISLAND TRADER SECURITIES INC | 14,131.00 | 565.24 | 0.0400 |
| ITG INC | 7,693.00 | 118.90 | 0.0155 |
| ITG SECURITIES (HK) LTD | 2,000.00 | 7.68 | 0.0038 |
| J | | | |
| J.P. MORGAN | 4,800.00 | 47.00 | 0.0098 |
| J.P. MORGAN SECURITIES INC | 654,418.00 | 376.72 | 0.0006 |
| J.P. MORGAN CLEARING CORP | 390,818.00 | 1,736.73 | 0.0141 |
| J.P. MORGAN SECURITIES ASIA PRIVATE DBS | 2,600.00 | 26.13 | 0.0101 |
| J.P. MORGAN SECURITIES INC | 3,094,395.00 | 858.13 | 0.0003 |
| JANNEY MONTGOMERY, SCOTT INC | 1,1374.00 | 454.96 | 0.0400 |
| JEFFERIES & COMPANY INC | 2,052,428.00 | 2,908.47 | 0.0014 |
| JMP SECURITIES | 8,941.00 | 357.64 | 0.0400 |
| JONES & ASSOCIATES INC | 1,785.00 | 35.70 | 0.0200 |
| JONESTRADING INSTITUTIONAL SERVICES LLC | 2,764.00 | 61.24 | 0.0222 |
| J.P. MORGAN SECURITIES PLC | 1,492,902.00 | 1,440.61 | 0.0010 |
| JPMORGAN CHASE BANK, N.A. | 3,200.00 | 128.45 | 0.0401 |

Schedule of Commissions (Continued)

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|--|----------------------------|----------------------|-------------------------|
| K | | | |
| KEEFE BRUYETTE & WOODS INC | 41,034.00 | \$ 1,624.02 | \$ 0.0396 |
| KEYBANC CAPITAL MARKETS INC | 23,963.00 | 794.36 | 0.0331 |
| KIM ENG SECURITIES (HK) LTD | 592.00 | 6.00 | 0.0101 |
| KING, CL, & ASSOCIATES, INC | 4,309.00 | 129.27 | 0.0300 |
| KNIGHT CLEARING SERVICES LLC | 1,500.00 | 60.00 | 0.0400 |
| KNIGHT EQUITY MARKETS LP | 24,102.00 | 618.52 | 0.0257 |
| L | | | |
| LAZARD CAPITAL MARKETS LLC | 1,339.00 | 24.69 | 0.0184 |
| LEERINK SWANN AND COMPANY | 22,938.00 | 900.17 | 0.0397 |
| LEK SECURITIES CORP | 22,910.00 | 458.20 | 0.0200 |
| LIQUIDNETASIA LIMITED | 1,621.00 | 12.24 | 0.0076 |
| LIQUIDNETINC | 75,169.00 | 1,217.13 | 0.0162 |
| M | | | |
| MACQUARIEBANK LIMITED | 1,246.00 | 392.23 | 0.0314 |
| MACQUARIESECURITIES (USA) INC | 3,924.00 | 156.96 | 0.0400 |
| MAINFIRSTBANK DE | 1,322.00 | 101.92 | 0.0771 |
| MERRILL LYNCH INTERNATIONAL | 27,474.00 | 396.77 | 0.0144 |
| MERRILL LYNCH PIERCE FENNER & SMITH INC | 2,721,359.00 | 42,511.13 | 0.0200 |
| MERRILL LYNCH PROFESSIONAL CLEARING CORP | 569.00 | 22.76 | 0.0400 |
| MONNESS, CRESPI, HARDT & CO INC | 4,309.00 | 129.27 | 0.0300 |
| MORGAN KEEGAN & CO INC | 995.00 | 39.80 | 0.0400 |
| MORGAN STANLEY CO INCORPORATED | 740,002.00 | 5,907.05 | 0.0080 |
| N | | | |
| NATIONAL FINANCIAL SERVICES CORP | 2,550.00 | 76.50 | 0.0300 |
| NBC CLEARING SERVICES INCORPORATED | 3,600.00 | 144.80 | 0.0402 |
| NEEDHAM & COMPANY | 3,069.00 | 122.76 | 0.0400 |
| NESBITT BURNS | 19,250.00 | 752.95 | 0.0391 |
| NOMURA SECURITIES INTERNATIONAL INC | 823,814.00 | 601.65 | 0.0007 |
| O | | | |
| OPPENHEIMER & CO. INC | 328,643.00 | 1,225.72 | 0.0037 |
| P | | | |
| PENSON FINANCIAL SERVICES CANADA INC | 18,076.00 | 709.96 | 0.0393 |
| PERSHING LLC | 129,095,181.05 | 69,074.99 | 0.0004 |
| PERSHING SECURITIES LIMITED | 4,600.00 | 75.63 | 0.0164 |
| PICKERINGENERGY PARTNERS, INC | 11,649.00 | 465.96 | 0.0400 |
| PIPER JAFFRAY | 497,555.00 | 5,311.52 | 0.0107 |
| PIPER JAFFRAY & HOPWOOD | 9,181.00 | 367.24 | 0.0400 |
| PULSE TRADING LLC | 9,289.00 | 92.89 | 0.0100 |

Schedule of Commissions (Continued)

| Brokerage Firm | Number of Shares Traded | Total Commissions | Commission Per Share |
|--------------------------------------|----------------------------|----------------------|-------------------------|
| R | | | |
| RAYMOND JAMES AND ASSOCIATES INC | 28,406.00 | \$ 701.75 | \$ 0.0247 |
| RBC CAPITAL MARKETS | 47,886.00 | 1,509.60 | 0.0315 |
| RBC DOMINION SECURITIES INC | 12,614.00 | 495.40 | 0.0393 |
| REDBURN PARTNERS LLP | 76,787.00 | 802.16 | 0.0104 |
| REYNDERS, GRAY & COMPANY, INC | 858.00 | 25.74 | 0.0300 |
| ROBERT WBAIRD CO INCORPORATE | 95,744.00 | 2,688.88 | 0.0281 |
| ROCHDALE SEC CORP (CLS THRU 443) | 5,950.00 | 119.00 | 0.0200 |
| ROSENBLATT SECURITIES LLC | 2,669.00 | 53.38 | 0.0200 |
| ROYAL BANK OF CANADA | 36,400.00 | 1,463.89 | 0.0402 |
| S | | | |
| SANFORD C. BERNSTEIN LTD | 14,420.00 | 546.76 | 0.0379 |
| SANFORD C BERNSTEIN CO LLC | 51,441.00 | 1,484.82 | 0.0289 |
| SCOTIA CAPITAL (USA) INC | 18,654.00 | 373.08 | 0.0200 |
| SCOTT & STRINGFELLOW, INC | 6,095.00 | 216.60 | 0.0355 |
| SG AMERICAS SECURITIES LLC | 3,472.00 | 138.88 | 0.0400 |
| SIMMONS & COMPANY INTERNATIONAL | 6,175.00 | 247.00 | 0.0400 |
| SKANDINAVISKA ENSKILDA BANKEN LONDON | 7,008.00 | 38.23 | 0.0055 |
| SOCIETE GENERALE PARIS ZURICH BRA | 408.00 | 48.44 | 0.1185 |
| STATE STREET GLOBAL MARKETS, LLC | 279,767.00 | 5,905.74 | 0.0211 |
| STERNE AGEE & LEACH INC | 5,251.00 | 210.04 | 0.0400 |
| STIFEL NICOLAUS & CO INC | 68,940.00 | 1,663.77 | 0.0243 |
| SUNTRUST CAPITAL MARKETS, INC | 47,150.00 | 162.46 | 0.0035 |
| SVENSKA HANDELSBANKEN | 31,187.00 | 359.89 | 0.0115 |
| T | | | |
| TD WATERHOUSE CDA | 34,491.00 | 1,377.61 | 0.0399 |
| THINKPANMURE LLC | 1,016.00 | 40.64 | 0.0400 |
| U | | | |
| UBS AG | 26,572.00 | 216.15 | 0.0081 |
| UBS SECURITIES LLC | 504,144.22 | 554.73 | 0.0011 |
| W | | | |
| WEDBUSH MORGAN SECURITIES INC | 20,190.00 | 806.79 | 0.0400 |
| WEEDEN & CO | 2,497.00 | 74.91 | 0.0300 |
| WELLS FARGO SECURITIES, LLC | 1,791,421.00 | 2,056.96 | 0.0011 |
| WILLIAM BLAIR & COMPANY LLC | 21,328.00 | 663.95 | 0.0311 |
| WUNDERLICH SECURITIES INC | 38,980.00 | 1,559.20 | 0.0400 |
| TOTAL | 1,803,890.024 | \$ 254,996.30 | \$ 0.0001 |

Investment Summary

As of June 30, 2012

| Type of Investment | Fair Value | % of Portfolio |
|----------------------------------|-------------------------|----------------|
| Total Equity | | |
| Global Equity | \$ 910,753,921 | 50.96% |
| Private Equity | 96,589,741 | 5.40% |
| Real Estate | 96,010,542 | 5.37% |
| Total Equity | \$ 1,103,354,204 | 61.73% |
| Total Fixed Income | | |
| Global Fixed Income | 199,373,206 | 11.15% |
| Opportunistic | 87,968,655 | 4.92% |
| Total Fixed Income | \$ 287,341,861 | 16.07% |
| Alternatives | | |
| Real Assets | 153,867,397 | 8.61% |
| Total Alternatives | \$ 153,867,397 | 8.61% |
| Short Term* | 242,395,820 | 13.56% |
| International Currency Contracts | 452,803 | 0.03% |
| Total Fair Value** | \$ 1,787,412,085 | 100.00% |

Note: The amounts presented above may vary from the amounts presented in the financial statements due to the investment summary presenting amounts at the manager level and the financial statements presenting amounts at the security level.

* Includes cash to support synthetic exposure.

**Includes Healthcare Trust assets.

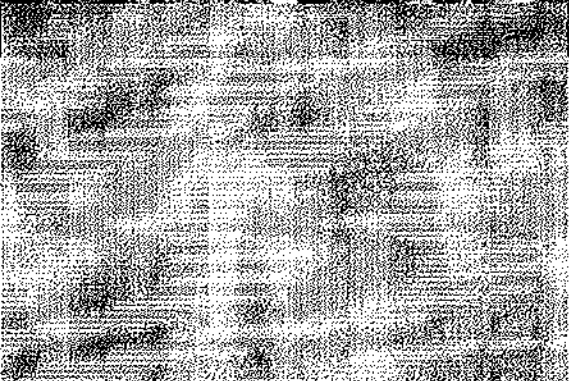
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Actuarial Section



City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012



Actuary's Certification Letter



Classic Values. Innovative Advice.

April 23, 2012

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, CA 95112

Dear Members of the Board:

At your request, we performed the June 30, 2011 actuarial valuation of the City of San Jose Federated City Employees' Retirement System ("System"). The detailed valuation results with respect to the System are contained in our actuarial valuation report issued January 17, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the System as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2013; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 25 and 27. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted by the System are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the System compared to the amount targeted by the funding method as of the valuation date. Variations in the expected cost of the plan are amortized as a level percentage of expected payroll over closed 20-year periods (except the entire unfunded actuarial liability as of June 30, 2009 is amortized over a closed 30-year period).

At its October 2011 meeting, the Board adopted a number of assumption changes based on recommendations from our experience study. In particular, the Board reduced its investment return assumption from the 7.95% that was used in the prior valuation and the 7.75% that had been previously adopted for this valuation to 7.50%. The wage growth assumption was also reduced from 3.90% in the prior valuation to 3.25% in this valuation. Administrative expenses and the Supplemental Retiree Benefit Reserve (SRBR), which had been implicitly valued as part of the investment return assumption, are now explicitly valued as an addition to normal cost (0.70% of payroll for administrative expenses and 0.35% of the market value of assets for the SRBR). The changes in assumptions are summarized in the Actuarial Assumptions and Methods exhibits.

During the year, the System also experienced very significant changes in its assets and liabilities, including a 14% reduction in the number of active members and a 24% reduction in the expected payroll. The investment return for the year was nearly 19%, but due to asset smoothing, prior investment losses are still being phased in and as a result the return on the actuarial value of assets was only 5.5%.

- **Unfunded Actuarial Liability (UAL)/Surplus:** The UAL increased by approximately \$200 million primarily due to the assumption changes (\$188 million).
- **Funding Ratio:** The ratio of the actuarial value of assets to the actuarial liability declined since the last valuation from 69% to 65% due to the assumption changes. The actuarial value of assets is smoothed in order to mitigate the impact of investment performance volatility on employer contribution rates. Without the asset smoothing, the ratio of the market value of assets to the actuarial liability increased from 60% to 64% even with the impact of the assumption changes.

Chubb Insurance Company of America, 601 Lexington Avenue, New York, NY 10022

Chubb Insurance Company of America

Chubb Insurance Company of America

Chubb Insurance Company of America



Actuary's Certification Letter *(Continued)*

- *Member Contribution Rate:* The member contribution rate is a proportion (3/11ths) of the service normal cost rate. The Member contribution rate increased from 4.68% to 4.82% due to demographic experience and from 4.82% to 5.74% due to the changes in assumptions.
- *City Contributions:* City contributions are a proportion (8/11ths) of the service normal cost rate plus the reciprocity normal cost rate plus an amortization payment on the UAL. City contributions as a percent of payroll increased significantly from 28.34% of payroll to 44.45% of payroll. However, the decrease in payroll exaggerates the increased cost to the City. The beginning of year contribution amount increased from \$87 million to \$103 million due primarily to the assumption changes. Based on the prior valuation, the contribution amount had been expected to increase to \$105 million without all of the assumption changes.

More details on the plan experience for the past year, including the changes listed above and their impact on the June 30, 2011 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standard of Practice #23.

We have prepared the following information for inclusion in this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2011 actuarial valuation:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Valuation Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Notes to Required Supplementary Information
- Analysis of Financial Experience
- Solvency Test
- Schedule of Funding Progress
- Summary of Plan Benefits

All historical information prior to the June 30, 2010 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, Gahriel, Roeder, Smith and Company.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

Sincerely,
Cheiron



Gene Kalwarski, FSA, FCA, EA, MAAA
Consulting Actuary



William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary

Actuarial Assumptions and Methods

Actuarial Assumptions

1. Investment Return Assumption

Assets are assumed to earn 7.5% net of investment.

2. Interest Credited to Member Contributions

3.00%, compounded annually.

3. Administrative Expenses

0.70% of payroll is added to the normal cost of the system for expected administrative expenses.

4. Future SRBR transfers

0.35% of the Market Value of Assets is added to the employer normal cost to estimate the average net transfer to the SRBR.

5. Salary Increase Rate

Wage inflation component: 3.25%

In addition, the following merit component is added based on an individual member's years of service:

| Table B-1 | | | |
|------------------------|-----------------|------------------|-----------------|
| Salary Merit Increases | | | |
| Years of Service | Merit/Longevity | Years of Service | Merit/Longevity |
| 0 | 4.50% | 8 | 0.60 |
| 1 | 3.50 | 9 | 0.50 |
| 2 | 2.50 | 10 | 0.45 |
| 3 | 1.85 | 11 | 0.40 |
| 4 | 1.40 | 12 | 0.35 |
| 5 | 1.15 | 13 | 0.30 |
| 6 | 0.95 | 14 | 0.25 |
| 7 | 0.75 | 15+ | 0.25 |

6. Family Composition

Percentage married is shown in the following Table B-2. Male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

| Table B-2 | |
|--------------------|------------|
| Percentage Married | |
| Gender | Percentage |
| Males | 80% |
| Females | 60% |

7. Rates of Withdrawal/Termination

Sample rates of termination are shown in the following Table B-3.

20% of terminating employees are assumed to subsequently work for a reciprocal employer and receive 3.25% pay increases per year.

| Table B-3 | | | |
|----------------------|--------------------|----------------------|----------------------------|
| Rates of Termination | | | |
| Age | 0 Years of Service | 1-4 Years of Service | 5 or more Years of Service |
| 20 | 20% | 10.00% | 5.50% |
| 25 | 20 | 10.00 | 5.30 |
| 30 | 20 | 9.50 | 4.85 |
| 35 | 20 | 9.20 | 4.20 |
| 40 | 20 | 5.60 | 3.00 |
| 45 | 20 | 4.60 | 1.85 |
| 50 | 20 | 4.00 | 1.75 |
| 55 | 20 | 4.00 | 0.00 |
| 60 | 20 | 4.00 | 0.00 |
| 65 | 0 | 0.00 | 0.00 |

* Withdrawal/termination rates do not apply once a member is eligible for retirement

8. Rates of Refund

Sample rates of vested terminated employees electing a refund of contributions are shown in the following Table B-4.

| Table B-4 | |
|-----------------|--------|
| Rates of Refund | |
| Age | Refund |
| 20 | 40.0% |
| 25 | 30.0 |
| 30 | 25.0 |
| 35 | 20.0 |
| 40 | 15.0 |
| 45 | 10.0 |
| 50 | 4.0 |
| 55 | 0.0 |

Actuarial Assumptions and Methods *(Continued)*

9. Rates of Disability

Sample disability rates of active participants are provided in Table B-5.

| Table B-5 | |
|--------------------------------------|------------|
| Rates of Disability at Selected Ages | |
| Age | Disability |
| 20 | 0.030% |
| 25 | 0.033 |
| 30 | 0.056 |
| 35 | 0.098 |
| 40 | 0.162 |
| 45 | 0.232 |
| 50 | 0.302 |
| 55 | 0.376 |
| 60 | 0.455 |
| 65 | 0.504 |
| 70 | 0.000 |

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

10. Rates of Mortality for Healthy Lives

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

| Table B-6 | | |
|--|---------|---------|
| Rates of Mortality for Active and Retired Healthy Lives at Selected Ages | | |
| Age | Male | Female |
| 20 | 0.0237% | 0.0152% |
| 25 | 0.0297 | 0.0155 |
| 30 | 0.0365 | 0.0196 |
| 35 | 0.0585 | 0.0314 |
| 40 | 0.0881 | 0.0484 |
| 45 | 0.1100 | 0.0747 |
| 50 | 0.1460 | 0.1092 |
| 55 | 0.2154 | 0.1841 |
| 60 | 0.4140 | 0.3639 |
| 65 | 0.8104 | 0.7094 |
| 70 | 1.4464 | 1.2471 |
| 75 | 2.4223 | 2.0673 |
| 80 | 4.3489 | 3.8835 |

11. Rates of Mortality for Retired Disabled Lives

| Table B-7 | | |
|--|--------|--------|
| Rates of Mortality for Disabled Lives at Selected Ages | | |
| Age | Male | Female |
| 20 | 0.664% | 0.478% |
| 25 | 0.719 | 0.492 |
| 30 | 0.790 | 0.512 |
| 35 | 0.984 | 0.548 |
| 40 | 1.666 | 0.674 |
| 45 | 1.646 | 0.985 |
| 50 | 1.632 | 1.245 |
| 55 | 1.936 | 1.580 |
| 60 | 2.293 | 1.628 |
| 65 | 3.174 | 1.969 |
| 70 | 3.870 | 3.019 |
| 75 | 6.001 | 3.915 |
| 80 | 8.388 | 5.555 |

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

Actuarial Assumptions and Methods (Continued)

12. Rates of Retirement

Rates of retirement are based on age according to the following Table B-8.

| Table B-8 | | |
|--|----------------------------------|--------------------------------|
| Rates of Retirement by Age and Service | | |
| Age | Less than 30 Years of Service | 30 or more Years of Service |
| 50 | 0.0% | 60.0% |
| 51 | 0.0 | 60.0 |
| 52 | 0.0 | 60.0 |
| 53 | 0.0 | 60.0 |
| 54 | 0.0 | 60.0 |
| 55 | 17.5 | 50.0 |
| 56 | 8.5 | 50.0 |
| 57 | 8.5 | 50.0 |
| 58 | 8.5 | 50.0 |
| 59 | 9.5 | 50.0 |
| 60 | 9.5 | 50.0 |
| 61 | 16.0 | 50.0 |
| 62 | 16.0 | 50.0 |
| 63 | 16.0 | 50.0 |
| 64 | 16.0 | 50.0 |
| 65 | 25.0 | 60.0 |
| 66 | 25.0 | 60.0 |
| 67 | 25.0 | 60.0 |
| 68 | 25.0 | 60.0 |
| 69 | 25.0 | 60.0 |
| 70 & over | 100.0 | 100.0 |

13. Deferred Member Benefit

The benefit was estimated based on information provided by the Department of Retirement Services. The data used to value the estimated deferred benefit were credited service, date of termination, and last pay rate. Based on the data provided, highest average salary was estimated.

14. Other

The contribution requirements and benefit values of a plan are calculated by applying actuarial assumptions to the benefit provisions and member information, using the actuarial funding methods described in the following section.

Actual experience of Federated will not coincide exactly with assumed experiences, regardless of the choice of the

assumptions, the skill of the actuary or the precision of the many calculations made. Each valuation provides a complete recalculation of assumed future experience and takes into account all past differences between assumed and actual experience. The result is a continual series of adjustments to the computed contribution rate. From time to time it becomes appropriate to modify one or more of the assumptions, to reflect experience trends, but not random year-to-year fluctuations.

15. Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study that were adopted by the Board in October 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, reciprocal rate, and refund rate assumptions. For a complete description of these changes, please refer to the experience study report dated May 12, 2011.

Actuarial Methods

1. Actuarial Funding Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the retirement benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal costs and represents the target amount of assets the System should have as of the valuation date to fund the benefits as a level percentage of payroll.

2. Asset Valuation Method

For the purpose of determining the Employer's contribution, an actuarial value of assets is used. The asset smoothing method dampens the volatility in asset values that occur because of fluctuations in market conditions, resulting in a smoother pattern of contribution rates.

The actuarial value of assets is calculated by recognizing 20% of the difference in each of the prior four years of actual investment returns compared to the expected return on the market value of assets.

3. Amortization Method

The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets. The unfunded actuarial liability as of June 30, 2009 is amortized as a level percentage of pay over a closed 30-year period commencing June 30, 2009. Actuarial gains and losses, assumption changes, and plan changes are amortized as a level percentage of pay over 20-year periods beginning with the valuation date in which they first arise.

Actuarial Assumptions and Methods (Continued)

4. Supplemental Retiree Benefit Reserve (SRBR)

Beginning with this valuation, the SRBR balance is added to the actuarial liability and the assets are included in the actuarial value of assets. In prior valuations, the SRBR balance was excluded from both the actuarial liability and the actuarial value of assets.

5. Contributions

At its November 2010 meeting, the Board adopted a policy setting the City's contribution to be the greater of the dollar amount reported in the actuarial valuation (adjusted for interest based on the time of the contribution) and the dollar amount determined by applying the percent of payroll reported in the actuarial valuation to the actual payroll for the fiscal year. The City and Member contributions determined by a valuation become effective for the fiscal year commencing one year after the valuation date.

Member Valuation Data

| SCHEDULE OF ACTIVE MEMBER DATA | | | | |
|--------------------------------|--------------|----------------|--------------------|-----------------------------------|
| Valuation Date | Active count | Annual Payroll | Average Annual Pay | Percentage Change in Average Pay* |
| 2011 | 3,274 | \$ 228,936,398 | \$ 69,926 | 11.2% |
| 2010 | 3,818 | 300,811,165 | 78,788 | -0.5% |
| 2009 | 4,079 | 322,020,387 | 79,191 | -7.1 |
| 2007 | 3,942 | 291,404,606 | 73,923 | 7.0 |
| 2005 | 4,148 | 286,445,861 | 69,056 | 5.6 |
| 2003 | 4,479 | 292,981,371 | 65,408 | 5.5 |
| 2001 | 4,466 | 251,636,000 | 56,582 | 7.9 |
| 1999 | 3,694 | 193,650,000 | 52,423 | 8.3 |
| 1997 | 3,642 | 175,264,000 | 48,403 | 6.8 |
| 1995 | 3,397 | 153,918,000 | 45,310 | 4.4 |

* Years prior to 2009 are increases over a two-year period, not an annual increase.

Changes in Retirants (Including Beneficiaries)

| SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS | | | | | | | | | | |
|---|---------------------|-------------------|----------------|-------------------|--------------------|-------------------|---------------|-------------------|----------------------------------|---------------------------|
| | Beginning of Period | | Added to Rolls | | Removed from Rolls | | End of Period | | | |
| Period | Count | Annual Allowances | Count | Annual Allowances | Count | Annual Allowances | Count | Annual Allowances | % Increase in Annual Allowances* | Average Annual Allowances |
| 2010-11 | 3,111 | \$ 112,660,000 | 398 | \$ 16,830,000 | 81 | \$ 2,406,000 | 3,428 | \$ 129,869,000 | 15.3% | \$ 37,885 |
| 2009-10 | 2,930 | 101,194,000 | 206 | 10,700,373 | 79 | 2,203,960 | 3,111 | 112,660,000 | 11.3% | 36,213 |
| 2007-09 | 2,691 | 84,723,000 | 376 | 14,690,021 | 137 | 3,450,915 | 2,930 | 101,194,000 | 19.4 | 34,537 |
| 2005-07 | 2,426 | 69,466,000 | 389 | 13,816,131 | 124 | 2,721,303 | 2,691 | 84,723,000 | 22.0 | 31,484 |
| 2003-05 | 2,172 | 54,687,000 | 398 | 16,679,649 | 144 | 7,070,047 | 2,426 | 69,466,000 | 27.0 | 28,634 |
| 2001-03 | 2,030 | 45,208,000 | 313 | 10,151,748 | 171 | 503,802 | 2,172 | 54,587,000 | 21.0 | 25,178 |
| 1999-2001 | 1,824 | 37,137,000 | 230 | 6,655,000 | 24 | 266,000 | 2,030 | 45,208,000 | 21.7 | 22,270 |
| 1997-1999 | 1,745 | 32,630,000 | 202 | 4,642,000 | 123 | 1,514,000 | 1,824 | 37,137,000 | 13.8 | 20,360 |
| 1995-1997 | 1,636 | 29,029,000 | 190 | 4,143,000 | 81 | 946,000 | 1,745 | 32,630,000 | 12.4 | 18,699 |

* Years prior to 2009-2010 are increases over a two-year period, not an annual increase.

Solvency Test

| GASB SOLVENCY TEST | | | | | | | |
|----------------------------|-----------------------------|---|---------------------------------------|------------------|---|------|-----|
| Actuarial Liabilities for: | | | | | | | |
| Valuation Date | Active Member Contributions | Retirees, Beneficiaries and Other Inactives | Remaining Active Members' Liabilities | Reported Assets* | Portion of Actuarial Liabilities Covered by Reported Assets | | |
| June 30, ** | (A) | (B) | (C) | | (A) | (B) | (C) |
| 2011 | \$ 234,574 | \$ 1,848,254 | \$ 687,400 | \$ 1,788,660 | 100% | 84% | 0% |
| 2010 | 242,944 | 1,504,698 | 762,716 | 1,729,414 | 100% | 99% | 0% |
| 2009 | 228,967 | 1,393,114 | 864,074 | 1,756,588 | 100% | 100% | 16% |
| 2007 | 214,527 | 1,003,001 | 743,415 | 1,622,851 | 100% | 100% | 55% |
| 2005 | 230,027 | 824,043 | 657,300 | 1,384,454 | 100% | 100% | 50% |
| 2003 | 224,875 | 635,092 | 451,724 | 1,280,719 | 100% | 100% | 93% |
| 2001 | 210,377 | 529,853 | 332,103 | 1,060,144 | 100% | 100% | 96% |

* Actuarial Value of Assets

Amounts in thousands

** Results prior to June 30, 2010 were calculated by the prior actuary

Actuarial Analysis of Financial Experience

For the Ten-Year Period Ending June 30, 2011

Change in Contribution Rate

| | |
|---|----------------|
| For Plan Year Ended June 30, 2011 | |
| Investment Performance | 2.69% |
| Liability Experience | 1.93% |
| Change in Assumptions | 12.55% |
| Change in Benefit Provision | 0.00% |
| TOTAL | 17.17% |
| For Plan Year Ended June 30, 2010 | |
| Phase-in of Contribution Rates | 2.91 % |
| Investment Performance | 3.03 % |
| Liability Experience | 1.24 % |
| Change in Assumptions | -1.88 % |
| Change in Benefit Provision | 0.00% |
| TOTAL | 5.30% |
| For Plan Year Ended June 30, 2009 | |
| Investment Performance | 1.63 % |
| Liability Experience | 1.19 % |
| Change in Assumptions | 5.22 % |
| Change in Benefit Provision | 0.00 % |
| TOTAL | 8.04 % |
| For Plan Year Ended June 30, 2007* | |
| Investment Performance | (0.99)% |
| Liability Experience | 1.14 % |
| Change in Assumptions | 0.00 % |
| Change in Benefit Provision | 0.00 % |
| TOTAL | 0.15 % |
| For Plan Year Ended June 30, 2005 | |
| Investment Performance | 1.77% |
| Liability Experience | 2.37 % |
| Change in Assumptions | (0.59)% |
| Change in Benefit Provision | 0.00 % |
| TOTAL | 3.55 % |
| For Plan Year Ended June 30, 2003 | |
| Investment Performance | 2.78 % |
| Liability Experience | 2.60 % |
| Change in Asset Valuation Method | (2.48)% |
| Change in Assumptions | 0.00 % |
| Change in Benefit Provision | 0.00 % |
| TOTAL | 2.90 % |
| For Plan Year Ended June 30, 2001 | |
| Investment Performance | (0.46)% |
| Liability Experience | (1.62)% |
| Change in Assumptions | 0.00 % |
| Change in Benefit Provision | 1.51 % |
| TOTAL | (0.57)% |

* Change in employer contribution rate for retirement only

Summary of Plan Provisions

1. Membership Requirement

Participation in the Plan is immediate upon the first day of full-time employment.

2. Final Compensation

Members who separated from city service prior to June 30, 2001:

The highest average annual compensation earnable during any period of three consecutive years.

Members who separated from city service on or after June 30, 2001:

The highest average annual compensation earnable during any period of twelve consecutive months.

3. Credited Service

One year of service credit is given for 1,739 or more hours of Federated city service rendered in any calendar year. A partial year (fraction with the numerator equal to the hours worked, and the denominator equal to 1,739) is given for each calendar year with less than 1,739 hours worked.

4. Member Contributions

Member:

The amount needed to fund 3/11 of benefits accruing for the current year. These contributions are credited with interest at 3.0% per year, compounded annually.

Employer:

The Employer contributes the remaining amounts necessary to maintain the soundness of the Retirement System.

5. Service Retirement

Eligibility:

Age 55 with five years of service, or any age with 30 years of service.

Benefit - Member:

2.5% of Final Compensation for each year of credited service, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor: 50% of the service retirement benefit paid to a qualified survivor.

6. Service-Connected Disability Retirement

Eligibility:

No age or service requirement.

Benefit - Member:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. Workers' Compensation benefits are generally offset from the service-connected benefits under this system.

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

7. Non-Service Connected Disability Retirement

Eligibility:

5 years of service.

Benefit - Member:

Members who were hired prior to September 1, 1998:

The amount of the service-connected benefit reduced by 0.5% for each year that the disability age preceded 55.

Members who were hired on or after September 1, 1998:

20% of Final Compensation, plus 2% of Final Compensation for each year of credited service between six and 16 years, plus 2.5% of Final Compensation for each year of credited service in excess of 16 years, subject to a maximum of 75% of Final Compensation.

Benefit - Survivor:

50% of the disability retirement benefit paid to a qualified survivor.

8. Death while an Active Employee

Less than five Years of Service, or No Qualified Survivor:

Lump sum benefit equal to the accumulated refund of all employee contributions with interest, plus one month of salary for each year of service, up to a maximum of six years.

Five or more Years of Service:

2.5% of Final Compensation for each year of credited service, subject to a minimum of 40% and a maximum of 75% of Final Compensation. The benefit is payable until the spouse or registered domestic partner marries or establishes a domestic partnership. If the member was age 55 with 20 years of service at death, the benefit is payable for the lifetime of the member's spouse or registered domestic partner.

9. Withdrawal Benefits

Less than five Years of Service:

Lump sum benefit equal to the accumulated employee contributions with interest.

Summary of Plan Benefits (Continued)

Five or more years of credited service:

The amount of the service retirement benefit, payable at age 55.

10. Additional Post-retirement Death Benefit

A death benefit payable as a lump sum equal to \$500 will be paid to a qualified survivor upon the member's death.

11. Post-retirement Cost-of-Living Benefit

Benefits are increased every April 1 by 3.0%, regardless of actual inflation.

12. Supplemental Retiree Benefit Reserve (SRBR)

Each year, 10% of Excess Earnings, if any, are transferred to the SRBR, and the SRBR balance is credited with interest equal to the actual rate of return up to the actuarially assumed investment return, but not less than \$0. The interest credited to the SRBR balance is distributed to retirees and beneficiaries along with any balance (before interest crediting) in excess of the minimum balance established by the Board (\$7,000 per retiree/beneficiary).

Actuary's Certification Letter

Other Postemployment Benefits (OPEB)



Chief Financial Officer, Administrative Services

April 23, 2012

VIA ELECTRONIC MAIL

Retirement Board of the Federated City
Employees' Retirement System
1737 North 1st Street, Suite 580
San Jose, California 95112

Dear Members of the Board:

At your request, we performed the June 30, 2011 actuarial valuation of the City of San Jose Federated Retiree Health Care Plan ("Plan"). The detailed valuation results with respect to the Plan are contained in our actuarial valuation report issued January 13, 2012. The purpose of the actuarial valuation is to report on the financial condition, including historical and expected future trends, of the Plan as of the valuation date; to determine the City's and member contribution rates for the fiscal year ending June 30, 2013; and to provide other disclosure information required under Government Accounting Standards Board Statements No. 43 and 45. Historically, actuarial valuations were performed every two years. Since June 30, 2009, actuarial valuations have been performed annually.

The funding methods adopted in collective bargaining and reflected by the Plan in this valuation are designed to spread the cost of benefits over each employee's working career as a level percentage of pay. The funding ratio indicates the percentage of assets in the Plan compared to the amount targeted by the funding method as of the valuation date. Because the effort to fully fund the Plan was started relatively recently with the entire unfunded actuarial liability as of June 30, 2009 being amortized over 30 years, the current funded status is relatively low. Variations in the expected cost of the Plan since June 30, 2009 are amortized as a level percentage of expected payroll over closed 20-year periods.

At its October 2011 meeting, the Board adopted a number of assumption changes for the pension plan based on recommendations from our experience study that also applies to the valuation of this Plan. In particular, the Board reduced its investment return assumption from the 7.95% that was used in the prior valuation and the 7.75% that had been previously adopted for this valuation to 7.50%. The wage growth assumption was also reduced from 3.90% in the prior valuation to 3.25% in this valuation. At its November 2011 meeting, the Board adopted assumptions specific to the OPEB valuation, including changes in assumed claims costs and a reduction in the expected return on employer assets from 4.5% to 4.0%. The changes in assumptions are summarized in the Actuarial Assumptions and Methods exhibits.

During the year, the Plan experienced very significant changes in its census, including a 14% reduction in the number of active members, a 10% increase in the number of retirees and spouses covered for retiree medical benefits, and a 24% reduction in expected payroll. Other key results from the valuation are as follows:

- **Unfunded Actuarial Liability (UAL)/Surplus:** On a financial reporting basis, the UAL increased \$191.5 million from \$818.4 million to \$1,009.9 million. The Actuarial Liability increased \$219.0 million and assets increased \$27.5 million.
- **Funding Ratio:** The ratio of the actuarial value of assets to actuarial liabilities remained at 12% since the last valuation.
- **Member Contribution Rate:** The City has negotiated contracts with its labor unions that require both employee and City contributions to fund the Plan. The agreements call for a five year transition to fully funding the Annual Required Contribution (ARC) under GASB 43 and 45 using a straight line method with a limit of an annual increase of 0.75% of payroll for the member and the City rate. The contributions for retiree medical benefits are split evenly between employees and the City, and the contributions for retiree dental benefits are split in the ratio of eight to three with the City.

City of San Jose, 1737 North 1st Street, San Jose, CA 95112

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Actuary's Certification Letter (Continued)

Other Postemployment Benefits (OPEB)

contributing 8/11 of the total contribution. The member contribution rate increased from 6.51 % to 7.26% of payroll. Without the phase-in, the member contribution rate would have been 14.47%.

- **City Contribution Rate:** The City contribution rate increased from 7.16% to 7.91% of payroll. Without the phase-in, the City contribution rate would have been 15.74%.

More details on the plan experience for the past year, including the changes listed above and their impact on these June 30, 2011 valuation results can be found in our full report. In preparing our report, we relied without audit, on information (some oral and some written) supplied by the City of San Jose Department of Retirement Services. This information includes, but is not limited to, the plan provisions, employee data, and financial information. We performed an informal examination of the obvious characteristics of the data for reasonableness and consistency in accordance with Actuarial Standards of Practice #23.

We have prepared the following information for inclusion in the Actuarial Section of this Comprehensive Annual Financial Report (CAFR) based on the June 30, 2011 actuarial valuation:

- Summary of Actuarial Assumptions and Methods
- Schedule of Active Member Data
- Schedule of Retirees and Beneficiaries Added to and Removed from Rolls
- Solvency Test
- Analysis of Financial Experience
- Summary of Key Substantive Plan Provisions

In addition, we have prepared the following information for inclusion in the Financial Section of this CAFR.

- Notes to Required Supplementary Information
- Schedule of Funding Progress
- Schedule of Employer Contributions

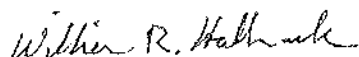
All historical information prior to the June 30, 2010 actuarial valuation shown in these exhibits is based on information reported by the prior actuary, Gabriel, Roeder, Smith and Company.

This letter and these exhibits were prepared exclusively for the purpose of completing required disclosures for this CAFR.

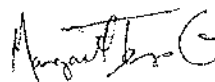
We hereby certify that, to the best of our knowledge, this letter and the exhibits named above, which are based on the information and data supplied by the City of San Jose Department of Retirement Services, are work products of Cheiron, Inc. These work products are complete and have been prepared in accordance with generally recognized and accepted actuarial principles and practices which are consistent with the Code of Professional Conduct and applicable Actuarial Standards of Practice set out by the Actuarial Standards Board. Furthermore, as credentialed actuaries, we meet the Qualification Standards of the American Academy of Actuaries to render the opinion contained in this letter and these exhibits. This letter does not address any contractual or legal issues. We are not attorneys and our firm does not provide any legal services or advice.

This letter and the exhibits named above do not reflect future changes in benefits, penalties, taxes, or administrative costs that may be required as a result of the Patient Protection and Affordable Care Act of 2010, related legislation, or regulations.

Sincerely,
Cheiron



William R. Hallmark, ASA, FCA, EA, MAAA
Consulting Actuary



Margaret A. Tempkin, FSA, EA, MAAA
Principal Consulting Actuary

Attachment

Actuarial Assumptions and Methods

Economic Assumptions:

1. Expected Return on Plan Assets: 7.50% per year
2. Expected Return on Employer Assets: 4.00% per year
3. Blended Discount Rate: 6.10% per year
4. Per Person Cost Trends:

| Date | Annual Increase | | |
|--------------------------|-----------------|-------------------|--------|
| To Year Beginning July 1 | Pre-Medicare | Medicare Eligible | Dental |
| 2012 | 9.17% | 6.83% | 4.50% |
| 2013 | 8.83 | 6.67 | 4.50 |
| 2014 | 8.50 | 6.50 | 4.00 |
| 2015 | 8.17 | 6.33 | 4.00 |
| 2016 | 7.83 | 6.17 | 4.00 |
| 2017 | 7.50 | 6.00 | 4.00 |
| 2018 | 7.17 | 5.83 | 4.00 |
| 2019 | 6.83 | 5.67 | 4.00 |
| 2020 | 6.50 | 5.50 | 4.00 |
| 2021 | 6.17 | 5.33 | 4.00 |
| 2022 | 5.83 | 5.17 | 4.00 |
| 2023 | 5.50 | 5.00 | 4.00 |
| 2024 | 5.17 | 4.83 | 4.00 |
| 2025 | 4.83 | 4.67 | 4.00 |
| 2026+ | 4.50 | 4.50 | 4.00 |

Deductibles, Co-payments, Out-of-Pocket Maximums, and Annual Maximum are assumed to increase at the above trend rates.

Demographic Assumptions:

1. Retirement Rates:

The following rates of retirement are assumed for members eligible to retire.

| Retirements by Age and Service | | |
|--------------------------------|-------------------------------|-----------------------------|
| Age | Less than 30 Years of Service | 30 or more Years of Service |
| 50 | 0.0% | 60.0% |
| 51 | 0.0 | 60.0 |
| 52 | 0.0 | 60.0 |
| 53 | 0.0 | 60.0 |
| 54 | 0.0 | 60.0 |
| 55 | 17.5 | 50.0 |
| 56 | 8.5 | 50.0 |
| 57 | 8.5 | 50.0 |
| 58 | 8.5 | 50.0 |
| 59 | 9.5 | 50.0 |
| 60 | 9.5 | 50.0 |
| 61 | 16.0 | 50.0 |
| 62 | 16.0 | 50.0 |
| 63 | 16.0 | 50.0 |
| 64 | 16.0 | 50.0 |
| 65 | 25.0 | 60.0 |
| 66 | 25.0 | 60.0 |
| 67 | 25.0 | 60.0 |
| 68 | 25.0 | 60.0 |
| 69 | 25.0 | 60.0 |
| 70 & over | 100.0 | 100.0 |

Actuarial Assumptions and Methods (continued)

Demographic Assumptions (Continued):

2. Termination / Refund Rates:

Sample rates of refund/termination are show in the following table

| Rates of Termination | | | |
|----------------------|--------------------|----------------------|----------------------------|
| Age | 0 Years of Service | 1-4 Years of Service | 5 or more Years of Service |
| 20 | 20% | 10.00% | 5.50% |
| 25 | 20 | 10.00 | 5.30 |
| 30 | 20 | 9.50 | 4.85 |
| 35 | 20 | 9.20 | 4.20 |
| 40 | 20 | 5.60 | 3.00 |
| 45 | 20 | 4.60 | 1.85 |
| 50 | 20 | 4.00 | 1.75 |
| 55 | 20 | 4.00 | 0.00 |
| 60 | 20 | 4.00 | 0.00 |
| 65 | 0 | 0.00 | 0.00 |

* Termination rates do not apply once a member is eligible for retirement

| Rates of Refund | |
|-----------------|--------|
| Age | Refund |
| 20 | 40.0% |
| 25 | 30.0 |
| 30 | 25.0 |
| 35 | 20.0 |
| 40 | 15.0 |
| 45 | 10.0 |
| 50 | 4.0 |
| 55 | 0.0 |

3. Rate of Mortality:

Healthy Lives:

Mortality rates for actives, retirees, beneficiaries, terminated vested and reciprocals are based on the male and female RP-2000 combined employee and annuitant tables. To reflect mortality improvements since the date of the table and to project future mortality improvements, the tables are projected to 2015 using scale AA and setback two years. The resulting rates are used for all age cohorts.

| Rates of Mortality for Active and Retired Healthy Lives at Selected Ages | | |
|--|---------|---------|
| Age | Male | Female |
| 20 | 0.0237% | 0.0152% |
| 25 | 0.0297 | 0.0155 |
| 30 | 0.0365 | 0.0196 |
| 35 | 0.0585 | 0.0344 |
| 40 | 0.0881 | 0.0484 |
| 45 | 0.1100 | 0.0747 |
| 50 | 0.1460 | 0.1092 |
| 55 | 0.2154 | 0.1841 |
| 60 | 0.4140 | 0.3639 |
| 65 | 0.8104 | 0.7094 |
| 70 | 1.4464 | 1.2471 |
| 75 | 2.4223 | 2.0673 |
| 80 | 4.3489 | 3.3835 |

Actuarial Assumptions and Methods (Continued)

Demographic Assumptions (Continued):

Disabled Lives:

Mortality rates for disabled retirees are based on the CALPERS ordinary disability mortality tables from their 2000-04 study for miscellaneous employees.

| Rates of Mortality for Disabled Lives at Selected Ages | | |
|--|--------|--------|
| Age | Male | Female |
| 20 | 0.664% | 0.478% |
| 25 | 0.719 | 0.492 |
| 30 | 0.790 | 0.512 |
| 35 | 0.984 | 0.548 |
| 40 | 1.666 | 0.674 |
| 45 | 1.646 | 0.985 |
| 50 | 1.632 | 1.245 |
| 55 | 1.936 | 1.580 |
| 60 | 2.293 | 1.628 |
| 65 | 3.174 | 1.989 |
| 70 | 3.870 | 2.1019 |
| 75 | 6.001 | 3.915 |
| 80 | 8.388 | 5.555 |

4. Disability Rates:

Sample rates of disability are show in the following table

| Rates of Disability at Selected Ages | |
|--------------------------------------|------------|
| Age | Disability |
| 20 | 0.030% |
| 25 | 0.033 |
| 30 | 0.056 |
| 35 | 0.098 |
| 40 | 0.162 |
| 45 | 0.232 |
| 50 | 0.302 |
| 55 | 0.376 |
| 60 | 0.455 |
| 65 | 0.504 |
| 70 | 0.000 |

50% of disabilities are assumed to be duty related, and 50% are assumed to be non-duty.

5. Salary Increase Rate:

Wage inflation component 3.25%

In addition, the following merit component is added based on an individual member's years of service.

| Salary Merit Increases | |
|------------------------|------------------|
| Years of Service | Merit/ Longevity |
| 0 | 4.50% |
| 1 | 3.50 |
| 2 | 2.50 |
| 3 | 1.85 |
| 4 | 1.40 |
| 5 | 1.15 |
| 6 | 0.95 |
| 7 | 0.75 |
| 8 | 0.60 |
| 9 | 0.50 |
| 10 | 0.45 |
| 11 | 0.40 |
| 12 | 0.35 |
| 13 | 0.30 |
| 14 | 0.25 |
| 15+ | 0.25 |

Actuarial Assumptions and Methods (Continued)

Demographic Assumptions (Continued):

6. Percent of Retirees Electing Coverage:

100% of employees are assumed to elect coverage at retirement. Future retirees' plan elections are assumed to mirror current retiree plan elections. Retirees who turn age 65 are assumed to be eligible for Medicare. The following rates are used to determine blended claims and contributions for future retirees.

| Assumed Plan Elections for Future Retirees | | |
|--|--------------|-------------------|
| Plan | Pre-Medicare | Medicare Eligible |
| Medical | | |
| • Kaiser | 46% | 45% |
| • Kaiser \$25 Co-pay | 19% | |
| • HMO | 22% | 7% |
| • HMO \$25 Co-pay | 6% | |
| • PPO/POS | 6% | 45% |
| • PPO/POS \$25 Co-pay | 1% | |
| • Secure Horizon | N/A | 7% |
| • Pacificare | N/A | 13% |
| Dental | | |
| • Delta Dental PPO | 97% | |
| • DeltaCare HMO | 3% | |

7. Family Composition:

90% of married males and 70% of married females will elect spouse coverage in a medical plan at retirement. 100% of employees with a spouse will elect spouse coverage in a dental plan at retirement.

8. Dependent Age:

For current retirees, actual spouse date of birth was used when available. For future retirees, male retirees are assumed to be three years older than their partner, and female retirees are assumed to be two years younger than their partner.

9. Married Percentage:

| Percentage Married | |
|--------------------|------------|
| Gender | Percentage |
| Males | 80% |
| Females | 60% |

10. Administrative Expenses:

Included in the average monthly premiums.

Changes Since Last Valuation

Actuarial assumptions have been changed, based upon recommendations from the 2011 actuarial experience study for the San Jose Federated City Employees' Retirement System that were adopted by the Board in October 2011. The changes affected the investment return, wage inflation, salary merit increase, family composition, termination rate, disability rate, retirement rate, healthy and disabled mortality, and refund rate assumptions. For a complete description of these changes, please refer to the experience study report dated May 12, 2011. In addition, the expected return on employer assets was reduced from 4.5 percent to 4.0 percent, and the blended discount rate was reduced from 6.71 percent to 6.1 percent.

Actuarial Assumptions and Methods *(Continued)*

Claim and Expense Assumptions:

1. Average Annual Claims and Expense Assumptions:

The following claim and expense assumptions are applicable to the 12-month period beginning July 1, 2011 and are based on the premiums in effect on the valuation date. Subsequent years' costs are based on the trended first year cost adjusted with trends listed above.

Active Employees:

| Age | Medical | |
|-----|----------|----------|
| | Male | Female |
| 40 | \$ 3,289 | \$ 5,847 |
| 45 | 4,119 | 6,190 |
| 50 | 5,456 | 7,344 |
| 55 | 7,169 | 8,749 |
| 60 | 9,318 | 10,444 |
| 64 | 12,036 | 12,934 |
| 65 | 5,516 | 5,883 |
| 70 | 6,477 | 6,497 |
| 75 | 7,243 | 7,005 |
| 80 | 7,695 | 7,231 |
| 85 | 7,798 | 7,156 |

Current Retirees:

| Age | Kaiser - Male | | | Kaiser - Female | | |
|-----|-----------------|----------------|------------------|-----------------|----------------|------------------|
| | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 6,329 | \$ 3,992 | \$ (2,337) | \$ 6,329 | \$ 5,999 | \$ (230) |
| 50 | 6,329 | 5,287 | (1,042) | 6,329 | 7,115 | 786 |
| 55 | 6,329 | 6,948 | 619 | 6,329 | 8,479 | 2,150 |
| 64 | 6,329 | 11,665 | 5,336 | 6,329 | 12,506 | 6,177 |
| 65 | 5,570 | 4,845 | (725) | 5,570 | 5,167 | (403) |
| 70 | 5,570 | 5,689 | 119 | 5,570 | 5,706 | 136 |
| 75 | 5,570 | 6,361 | 791 | 5,570 | 6,152 | 582 |
| 80 | 5,570 | 6,758 | 1,188 | 5,570 | 6,350 | 780 |

Actuarial Assumptions and Methods (Continued)

Current Retirees, continued

| Kaiser \$25 Co-pay Plan - Male | | | | Kaiser \$25 Co-pay Plan - Female | | |
|--------------------------------|-----------------|----------------|------------------|----------------------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 5,952 | \$ 3,755 | \$ (2,197) | \$ 5,952 | \$ 5,643 | \$ (309) |
| 50 | 5,952 | 4,973 | (979) | 5,952 | 6,692 | 740 |
| 55 | 5,952 | 6,535 | 583 | 5,952 | 7,975 | 2,023 |
| 64 | 5,952 | 10,972 | 5,020 | 5,952 | 11,763 | 5,811 |
| 65 | 5,570 | 4,845 | (725) | 5,570 | 5,167 | (403) |
| 70 | 5,570 | 5,689 | 119 | 5,570 | 5,706 | 136 |
| 75 | 5,570 | 6,361 | 791 | 5,570 | 6,152 | 582 |
| 80 | 5,570 | 6,758 | 1,188 | 5,570 | 6,350 | 780 |

| HMO - Male | | | | HMO - Female | | |
|------------|-----------------|----------------|------------------|-----------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 6,749 | \$ 4,451 | \$ (2,298) | \$ 6,749 | \$ 6,689 | \$ (60) |
| 50 | 6,749 | 5,896 | (853) | 6,749 | 7,933 | 1,184 |
| 55 | 6,749 | 7,747 | 998 | 6,749 | 9,454 | 2,705 |
| 64 | 6,749 | 13,006 | 6,257 | 6,749 | 13,944 | 7,195 |
| 65 | 5,153 | 5,241 | 88 | 5,153 | 5,590 | 437 |
| 70 | 5,153 | 6,154 | 1,001 | 5,153 | 6,172 | 1,019 |
| 75 | 5,153 | 6,881 | 1,728 | 5,153 | 6,656 | 1,503 |
| 80 | 5,153 | 7,311 | 2,158 | 5,153 | 6,870 | 1,717 |

| HMO \$25 Co-pay Plan - Male | | | | HMO \$25 Co-pay Plan - Female | | |
|-----------------------------|-----------------|----------------|------------------|-------------------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 6,370 | \$ 4,201 | \$ (2,169) | \$ 6,370 | \$ 6,313 | \$ (57) |
| 50 | 6,370 | 5,564 | (806) | 6,370 | 7,488 | 1,118 |
| 55 | 6,370 | 7,612 | 942 | 6,370 | 8,923 | 2,553 |
| 64 | 6,370 | 12,276 | 5,906 | 6,370 | 13,161 | 6,791 |
| 65 | 5,153 | 5,241 | 88 | 5,153 | 5,590 | 437 |
| 70 | 5,153 | 6,154 | 1,001 | 5,153 | 6,172 | 1,019 |
| 75 | 5,153 | 6,881 | 1,728 | 5,153 | 6,656 | 1,503 |
| 80 | 5,153 | 7,311 | 2,158 | 5,153 | 6,870 | 1,717 |

Actuarial Assumptions and Methods (Continued)

Current Retirees, continued

| PPO / POS - Male | | | | PPO / POS - Female | | |
|------------------|-----------------|----------------|------------------|--------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 9,370 | \$ 4,786 | \$ (4,584) | \$ 9,370 | \$ 7,192 | \$ (2,178) |
| 50 | 9,370 | 6,338 | (3,032) | 9,370 | 8,529 | (841) |
| 55 | 9,370 | 8,329 | (1,041) | 9,370 | 10,164 | 794 |
| 64 | 9,370 | 13,984 | 4,614 | 9,370 | 14,992 | 5,622 |
| 65 | 7,282 | 6,320 | (962) | 7,282 | 6,740 | (542) |
| 70 | 7,282 | 7,420 | 138 | 7,282 | 7,443 | 161 |
| 75 | 7,282 | 8,297 | 1,015 | 7,282 | 8,025 | 743 |
| 80 | 7,282 | 8,816 | 1,534 | 7,282 | 8,284 | 1,002 |

| PPO / POS \$25 Co-pay Plan - Male | | | | PPO / POS \$25 Co-pay Plan - Female | | |
|-----------------------------------|-----------------|----------------|------------------|-------------------------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 45 | \$ 8,841 | \$ 4,516 | \$ (4,325) | \$ 8,841 | \$ 6,786 | \$ (2,055) |
| 50 | 8,841 | 5,981 | (2,860) | 8,841 | 8,048 | (793) |
| 55 | 8,841 | 7,859 | (982) | 8,841 | 9,591 | 750 |
| 64 | 8,841 | 13,195 | 4,354 | 8,841 | 14,146 | 5,305 |
| 65 | 7,282 | 6,320 | (962) | 7,282 | 6,740 | (542) |
| 70 | 7,282 | 7,420 | 138 | 7,282 | 7,443 | 161 |
| 75 | 7,282 | 8,297 | 1,015 | 7,282 | 8,025 | 743 |
| 80 | 7,282 | 8,816 | 1,534 | 7,282 | 8,284 | 1,002 |

| Secure Horizons - Male | | | | Secure Horizons - Female | | |
|------------------------|-----------------|----------------|------------------|--------------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 62 | \$ 5,868 | \$ 4,427 | \$ (1,441) | \$ 5,868 | \$ 4,722 | \$ (1,146) |
| 70 | 5,868 | 5,199 | (669) | 5,868 | 5,214 | (654) |
| 75 | 5,868 | 5,813 | (55) | 5,868 | 5,672 | (246) |
| 80 | 5,868 | 6,176 | 308 | 5,868 | 5,803 | (65) |

| PacifiCare - Male | | | | PacifiCare - Female | | |
|-------------------|-----------------|----------------|------------------|---------------------|----------------|------------------|
| Age | Blended Premium | Age-Based Cost | Implicit Subsidy | Blended Premium | Age-Based Cost | Implicit Subsidy |
| 65 | \$5,189 | \$4,029 | \$(1,060) | \$5,189 | \$4,404 | \$(785) |
| 70 | 5,189 | 4,849 | (340) | 5,189 | 4,863 | (326) |
| 75 | 5,189 | 5,422 | 233 | 5,189 | 5,244 | 55 |
| 80 | 5,189 | 5,760 | 571 | 5,189 | 5,413 | 224 |

Actuarial Assumptions and Methods (Continued)

Current Retirees, continued

| Dental | |
|------------------|-------------------------------|
| Plan | Annual Premium (every age) |
| Delta-Dental PPO | \$ 1,303 |
| DeltaCare HMO | 561 |

2. Medicare Part D Subsidy:

Per GASB guidance, the Part D Subsidy has not been reflected in this valuation.

3. Medicare Part B Premiums:

Assumed that Medicare eligible retirees pay the Medicare Part B premiums.

4. Medicare Eligibility:

Age 65

5. Annual Limits:

Assumed to increase at the same rate as trend.

6. Lifetime Maximums:

Are not assumed to have any financial impact.

7. Geography:

Implicitly assumed to remain the same as current retirees.

8. Retiree Contributions:

Current retirees pay the difference between the actual premium for the elected plan and the Kaiser \$25 Co-pay Plan rate, if the retiree is eligible to receive the explicit subsidy.

Future retirees are assumed to pay the following annual rates (after reflection of the explicit subsidy).

| | Retiree | Spouse |
|-------------------|---------|----------|
| Pre-Medicare | \$ 631 | \$ 1,144 |
| Medicare Eligible | 364 | 0 |

Actuarial Assumptions and Methods (Continued)

Actuarial Methods

1. Actuarial Cost Method

The Entry Age Normal actuarial funding method was used for active employees, whereby the normal cost is computed as the level annual percentage of pay required to fund the postemployment benefits between each member's date of hire and assumed retirement. The actuarial liability is the difference between the present value of future benefits and the present value of future normal cost. The unfunded actuarial liability is the difference between the actuarial liability and the actuarial value of assets.

The claims costs are based on the fully insured premiums charged to the City for the active and retiree population.

2. Asset Valuation Method

The Actuarial Value of Assets is equal to the Market Value of Assets

3. Amortization Method

The UAL as of June 30, 2009 is amortized over a closed 30-year period as a level percentage of payroll, and subsequent gains and losses, changes in assumptions, and changes in plan provisions are amortized over 20-year periods from the first valuation recognizing the change.

| SCHEDULE OF ACTIVE MEMBER DATA | | | | |
|----------------------------------|----------------------|---------|-------|----------------|
| Valuation Date as of June 30, | Active Member Counts | | | Annual Payroll |
| | Under Age 65 | Age 65+ | Total | |
| 2011 | 3,201 | 73 | 3,274 | \$ 228,386,398 |
| 2010 | 3,721 | 97 | 3,818 | 300,011,365 |
| 2009 | 3,988 | 91 | 4,079 | 323,020,387 |
| 2007 | 3,853 | 66 | 3,919 | N/A |
| 2006 | 3,734 | 75 | 3,809 | N/A |

| SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS | | | | | |
|---|------------------------|---------------|----------------------|---------------|------------|
| Period | Beginning of Period | Added to Rols | Removed from Rols | End of Period | Net Change |
| Medical | | | | | |
| 2010-11 | 2,245 | 429 | 117 | 2,557 | 312 |
| 2009-10 | 2,078 | 243 | 76 | 2,245 | 167 |
| 2007-09 | 1,976 | N/A | N/A | 2,078 | 102 |
| 2006-07 | 1,891 | N/A | N/A | 1,976 | 85 |
| Dental | | | | | |
| 2009-11 | 2,588 | 413 | 95 | 2,906 | 318 |
| 2009-10 | 2,375 | 291 | 78 | 2,588 | 213 |
| 2007-09 | 2,248 | N/A | N/A | 2,375 | 127 |
| 2006-07 | 2,220 | N/A | N/A | 2,248 | 28 |

Actuarial Assumptions and Methods (Continued)

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

| SOLVENCY TEST | | | | | |
|----------------|---|--------------------------|-----------------|---|-----|
| Valuation Date | Actuarial Liabilities | | Reported Assets | Portion of Actuarial Liabilities Covered by Reported Assets | |
| | Retirees, Beneficiaries and Other Inactives | Remaining Active Members | | | |
| June 30, | (A) | (B) | | (A) | (B) |
| 2011 | \$ 652,157 | \$ 493,203 | \$ 135,454 | 21% | 0% |
| 2010 | 515,284 | 411,087 | 108,011 | 21% | 0% |
| 2009 | 421,367 | 375,081 | 85,564 | 20% | 0% |
| 2007 | 335,798 | 280,951 | 96,601 | 29% | 0% |
| 2006 | 370,886 | 332,052 | 81,288 | 22% | 0% |

Amounts in thousands

| ANALYSIS OF FINANCIAL EXPERIENCE | | | |
|--|--|-----------|--|
| Type of Activity | Gain (or Loss) for Year Ending June 30, 2011 | | Gain (or Loss) for Year Ending June 30, 2010 |
| Investment Income | \$ | 14,186 | \$ 6,705 |
| Liability Experience | | (35,166) | (43,746) |
| Gain (or Loss) During Year from Financial Experience | | (20,980) | (37,041) |
| Non-Recurring Gain (or Loss) Items | | (131,557) | (36,785) |
| Composite Gain (or Loss) During Year | \$ | (152,537) | \$ (73,826) |

Amounts in thousands

Summary of Key Substantive Plan Provisions:

Eligibility:

Medical:

Employees who retire (include deferred vested members) at age 55 with 15 years of service, or with a monthly pension equal to at least 37.5% of final compensation, are eligible to elect medical coverage upon retirement.

Employees who become disabled with at least 15 years of service or have a monthly pension equal to at least 37.5% of final compensation are eligible to elect medical coverage upon retirement.

Spouses or domestic partners of retired members are allowed to participate if they were enrolled in the City's medical plan at the time of the member's retirement. Dependent children are eligible to receive coverage until the age of 19 (24 if a full-time student).

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

1. the employee has 15 years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. both the member and the survivors were enrolled in the active medical plan immediately before death; and
3. the survivor will receive a monthly pension benefit.

Dental:

Employees who retire or become disabled directly from City service with at least five years of service or with a monthly pension equal to at least 37.5% of final compensation, and are enrolled in a City dental plan at retirement are eligible to elect dental coverage upon retirement. Spouses, domestic partners, or children of retired members are allowed to participate if they were enrolled in the City's dental plan at the time of the member's retirement.

Surviving spouses / domestic partners / children of deceased members are eligible for coverage if the following conditions are met:

Actuarial Assumptions and Methods *(Continued)*

OTHER POSTEMPLOYMENT BENEFITS (OPEB)

1. the employee has five years of service at time of death or is entitled to a monthly pension of at least 37.5% of final compensation; and
2. both the member and the survivors were enrolled in the active dental plan immediately before death; and
3. the survivor will receive a monthly pension benefit.

Benefits for Retirees:

Medical:

The Retirement System, through the medical benefit account, pays 100% of the premium for the lowest cost health plan available to active City employees. The member pays the difference if another plan is elected.

Effective January 1, 2011, the lowest cost health plan is the Kaiser \$25 Co-pay plan. The single coverage amount is \$496.04 per month, and the family coverage amount is \$1,235.16 per month. These amounts are not adjusted once a retiree is eligible for Medicare.

Dental:

The Retirement System, through the medical benefit account, pays 100% of the dental insurance premiums.

Premiums:

Monthly premiums before adjustments for 2011 are as follows:

| MONTHLY PREMIUMS FOR 2011 | | | | | |
|------------------------------------|-----------|------------|-------------|------------|--|
| | Single | % Increase | Family | % Increase | |
| Medical | | | | | |
| Non-Medicare Monthly Rates | | | | | |
| Kaiser Traditional (CA) | \$ 527.38 | 8.9% | \$ 1,313.18 | 9.0% | |
| Kaiser \$25 Co-pay Plan | 496.04 | N/A | 1,235.16 | N/A | |
| Blue Shield HMO | 562.40 | 4.1% | 1,444.76 | 4.1% | |
| Blue Shield HMO \$25 Co-pay | 530.82 | N/A | 1,363.58 | N/A | |
| Blue Shield PPO or POS | 780.84 | 4.1% | 2,006.70 | 4.1% | |
| Blue Shield PPO or POS \$25 Co-pay | 736.78 | N/A | 1,893.48 | N/A | |
| Medicare Monthly Rates | | | | | |
| Kaiser Senior Advantage | \$ 464.16 | 8.0% | \$ 928.32 | 8.0% | |
| Secure Horizons | 489.02 | 10.0% | 978.04 | 10.0% | |
| Blue Shield Medicare PPO | 606.82 | 4.1% | 1,213.64 | 4.1% | |
| Blue Shield Medicare HMO | 429.41 | 4.1% | 858.82 | 4.1% | |
| Medicare Senior Supplement | 432.40 | 9.3% | 864.80 | 9.3% | |
| Dental | | | | | |
| Delta Dental PPO | \$ 108.62 | (2.6)% | \$ 108.62 | (2.6)% | |
| DeltaCare HMO | 46.78 | (6.4)% | 46.78 | (6.4)% | |

Cost Sharing Provisions:

It is assumed for the purpose of this valuation that the City of San Jose will in the future maintain a consistent level of cost sharing for benefits with the retirees. This may be achieved by adjusting benefit provisions, contributions or both.

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The Statistical Section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this fiscal year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, and Other Postemployment Medical Benefits. This section also provides a multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for the System's net assets, benefits, refunds, contribution rates, and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Statistical Section

City of San José
Federated City Employees' Retirement System
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2012



Statistical Review

CHANGES IN NET ASSETS FOR FISCAL YEARS 2003-2012 (In Thousands) PENSION BENEFITS (Schedule 1a)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|------------------|-------------------|-------------------|-------------------|-------------------|--------------------|---------------------|-------------------|-------------------|---------------------|
| Additions | | | | | | | | | | |
| Employee contributions | \$ 11,776 | \$ 12,394 | \$ 12,393 | \$ 12,395 | \$ 12,370 | \$ 13,366 | \$ 13,848 | \$ 13,396 | \$ 24,602 | \$ 10,555 |
| Employer contributions | 98,411 | 39,534 | 41,552 | 41,267 | 51,004 | 54,958 | 57,020 | 54,566 | 59,180 | 87,082 |
| Investment income/ (loss)* | 71,179 | 192,373 | 115,618 | 132,873 | 244,210 | (60,101) | (295,773) | 191,755 | 287,179 | (68,903) |
| Total additions to plan net assets | 121,366 | 244,301 | 169,563 | 186,535 | 307,584 | 8,223 | (224,905) | 265,717 | 370,961 | 28,734 |
| Deductions (See Schedule 2a) | | | | | | | | | | |
| Benefit payments | 46,814 | 53,578 | 60,438 | 68,438 | 75,135 | 83,291 | 89,767 | 98,110 | 110,415 | 126,001 |
| Death benefits | 4,752 | 5,454 | 5,437 | 5,721 | 5,567 | 6,263 | 6,923 | 7,583 | 7,883 | 8,601 |
| Refunds | 714 | 1,188 | 927 | 1,246 | 1,008 | 972 | 1,395 | 1,219 | 1,980 | 2,195 |
| Administrative expenses and other | 1,359 | 1,799 | 1,588 | 1,790 | 1,845 | 2,358 | 2,110 | 2,641 | 2,867 | 3,306 |
| Total deductions from plan net assets | 53,812 | 62,019 | 68,390 | 77,195 | 83,555 | 92,884 | 100,193 | 109,553 | 123,145 | 140,103 |
| Change in Net Assets | \$ 67,554 | \$ 182,282 | \$ 101,173 | \$ 109,340 | \$ 223,729 | \$ (84,661) | \$ (225,098) | \$ 156,164 | \$ 247,816 | \$ (111,369) |

*Net of Expenses

POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 1b)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--|-----------------|-----------------|-----------------|-----------------|------------------|-------------------|-------------------|------------------|------------------|-----------------|
| Additions | | | | | | | | | | |
| Employee contributions | \$ 3,032 | \$ 3,191 | \$ 5,202 | \$ 5,276 | \$ 9,612 | \$ 10,403 | \$ 15,026 | \$ 15,815 | \$ 16,041 | \$ 14,995 |
| Employer contributions | 3,866 | 3,948 | 5,996 | 5,961 | 10,728 | 11,560 | 16,368 | 17,027 | 17,146 | 25,834 |
| Investment income/ (loss)* | 1,193 | 11,066 | 6,539 | 7,273 | 13,342 | (3,715) | (18,485) | 13,852 | 21,842 | (5,140) |
| Total additions to plan net assets | 11,091 | 18,205 | 17,737 | 18,460 | 33,682 | 18,248 | 12,909 | 46,694 | 55,029 | 35,689 |
| Deductions (See Schedule 2b) | | | | | | | | | | |
| Healthcare insurance premiums | 11,491 | 11,438 | 13,593 | 15,904 | 18,265 | 20,195 | 21,725 | 24,066 | 27,370 | 33,077 |
| Administrative expenses and other | 72 | 114 | 95 | 103 | 105 | 134 | 132 | 181 | 216 | 268 |
| Total deductions from plan net assets | 11,563 | 11,552 | 13,688 | 16,007 | 18,370 | 20,329 | 21,857 | 24,247 | 27,586 | 33,345 |
| Change in Net Assets | \$ 1,801 | \$ 6,653 | \$ 4,049 | \$ 2,453 | \$ 15,313 | \$ (2,081) | \$ (8,948) | \$ 22,447 | \$ 27,443 | \$ 2,344 |

*Net of Expenses

Source: Pension Administration System

Statistical Review (Continued)

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE (In Thousands) PENSION BENEFITS (Schedule 2a)

| Type of Benefit | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---------------------------------|-------------------|-------------------|-------------------|------------------|------------------|------------------|------------------|
| Age and Service Benefits | | | | | | | |
| Retirees – Service | \$ 109,662 | \$ 95,562 | \$ 84,606 | \$ 77,444 | \$ 71,849 | \$ 64,978 | \$ 59,391 |
| Retirees – Deferred Vested | 9,261 | 8,047 | 6,996 | 6,219 | 5,730 | 4,860 | 4,134 |
| Survivors – Service | 4,791 | 4,425 | 4,207 | 3,867 | 3,561 | 3,320 | 3,195 |
| Survivors – Deferred Vested | 161 | 130 | 138 | 126 | 122 | 108 | 87 |
| Death in Service Benefits | 2,349 | 2,202 | 2,161 | 2,032 | 1,815 | 1,722 | 1,750 |
| Disability Benefits | | | | | | | |
| Retirees – Duty | 3,609 | 3,493 | 3,498 | 3,256 | 3,102 | 2,920 | 2,702 |
| Retirees – Non-Duty | 2,011 | 2,039 | 1,899 | 1,884 | 1,835 | 1,737 | 1,640 |
| Survivors – Duty | 430 | 356 | 338 | 263 | 218 | 197 | 182 |
| Survivors – Non-Duty | 127 | 770 | 739 | 635 | 547 | 519 | 503 |
| Ex-Spouse Benefits | 1,529 | 1,274 | 1,111 | 964 | 775 | 640 | 571 |
| Total Benefits | \$ 134,602 | \$ 118,298 | \$ 105,693 | \$ 96,690 | \$ 89,554 | \$ 81,002 | \$ 74,159 |
| Type of Refund | | | | | | | |
| Separation | \$ 2,195 | \$ 1,980 | \$ 1,219 | \$ 1,395 | \$ 972 | \$ 1,008 | \$ 1,246 |
| Total Refunds | \$ 2,195 | \$ 1,980 | \$ 1,219 | \$ 1,395 | \$ 972 | \$ 1,008 | \$ 1,246 |

Fiscal Year 2004-05 data not available due to system limitations.

Source: Pension Administration System

Statistical Review *(Continued)*

BENEFIT AND REFUND DEDUCTIONS FROM NET ASSETS BY TYPE *(In Thousands)* POSTEMPLOYMENT HEALTHCARE BENEFITS (Schedule 2b)

| Type of Benefit | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|-------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Age and Service Benefits | | | | | | | |
| <i>Retirees – Service</i> | | | | | | | |
| Medical | \$ 20,762 | \$ 18,971 | \$ 16,344 | \$ 14,772 | \$ 13,524 | \$ 12,029 | \$ 10,341 |
| Dental | 3,083 | 2,840 | 2,474 | 2,150 | 2,148 | 2,022 | 1,870 |
| <i>Retirees – Deferred Vested*</i> | | | | | | | |
| Medical | 1,418 | 1,241 | 1,180 | 1,063 | 949 | 767 | 652 |
| Dental | 23 | 24 | 27 | 26 | 29 | 35 | |
| <i>Survivors – Service</i> | | | | | | | |
| Medical | 954 | 1,024 | 938 | 862 | 800 | 730 | 628 |
| Dental | 339 | 329 | 308 | 268 | 263 | 251 | 235 |
| <i>Survivors – Deferred Vested*</i> | | | | | | | |
| Medical | 24 | 18 | 16 | 11 | 10 | 9 | 11 |
| Dental | 7 | | | 1 | | | |
| Death in Service Benefits | | | | | | | |
| Medical | 389 | 412 | 386 | 335 | 327 | 313 | 293 |
| Dental | 78 | 79 | 74 | 67 | 69 | 72 | 71 |
| Disability Benefits | | | | | | | |
| <i>Retirees – Duty</i> | | | | | | | |
| Medical | 1,210 | 1,253 | 1,241 | 1,166 | 1,113 | 1,098 | 956 |
| Dental | 157 | 162 | 161 | 142 | 141 | 145 | 131 |
| <i>Retirees – Non-Duty</i> | | | | | | | |
| Medical | 462 | 530 | 513 | 510 | 482 | 478 | 433 |
| Dental | 87 | 97 | 84 | 79 | 81 | 78 | 73 |
| <i>Survivors – Duty</i> | | | | | | | |
| Medical | 125 | 125 | 100 | 80 | 75 | 69 | 59 |
| Dental | 32 | 30 | 27 | 20 | 15 | 18 | 17 |
| <i>Survivors – Non-Duty</i> | | | | | | | |
| Medical | 122 | 195 | 171 | 139 | 123 | 119 | 101 |
| Dental | 45 | 45 | 42 | 34 | 33 | 32 | 31 |
| Ex-Spouse Benefits | | | | | | | |
| Medical | 4 | | | | | | |
| Dental | | | | | | | |
| Implicit Subsidy Medical | 4,383 | | | | | | |
| Total Benefits | \$ 33,677 | \$ 27,370 | \$ 24,066 | \$ 21,725 | \$ 20,155 | \$ 18,265 | \$ 15,904 |

Fiscal Year 2004-05 data not available due to system limitations.

EMPLOYER AND EMPLOYEE CONTRIBUTION RATES FOR FISCAL YEARS 2003-2012 (Schedule 3)

| Fiscal Year | Employee Rate (%) | Employer Rate (%) |
|-------------|-------------------|-------------------|
| 2003 | 5.08 | 15.20 |
| 2004 | 5.08 | 15.20 |
| 2005 | 6.06 | 17.12 |
| 2006 | 6.06 | 17.12 |
| 2007 | 7.58 | 21.98 |

| Fiscal Year | Employee Rate (%) | Employer Rate (%) |
|-------------|-------------------|-------------------|
| 2008 | 7.58 | 21.98 |
| 2009 | 8.93 | 23.56 |
| 2010 | 9.35 | 24.01 |
| 2011 | 10.30* | 29.59** |
| 2012 | 11.20 | 35.50 |

* Some Bargaining units negotiated temporary higher rates.

** Some bargaining units negotiated temporary higher member contribution rates, which directly offset the City's contribution rate.

Retired Member by Type of Benefit

PENSION BENEFITS

As of June 30, 2012

| Monthly Benefit Amount | Number of Retirees & Beneficiaries | Type of Retirement* | | | | | | | Option Selected** | | | |
|------------------------|------------------------------------|---------------------|-----------|------------|-----------|------------|------------|------------|-------------------|------------|------------|--------------|
| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | A | B | C | Total |
| \$1-500 | 139 | 32 | 3 | 1 | 1 | 33 | 50 | 19 | 101 | 19 | 19 | 139 |
| 501-1000 | 281 | 90 | 9 | 3 | 3 | 75 | 75 | 26 | 219 | 19 | 43 | 281 |
| 1001-1500 | 375 | 138 | 8 | 10 | 13 | 98 | 88 | 20 | 261 | 45 | 69 | 375 |
| 1501-2000 | 400 | 185 | 14 | 39 | 21 | 75 | 51 | 15 | 290 | 36 | 74 | 400 |
| 2001-2500 | 379 | 234 | 13 | 23 | 13 | 42 | 44 | 10 | 267 | 34 | 78 | 379 |
| 2501-3000 | 328 | 231 | 6 | 27 | 15 | 28 | 22 | 4 | 230 | 35 | 63 | 328 |
| 3001-3500 | 323 | 258 | 7 | 13 | 10 | 3 | 28 | 4 | 213 | 35 | 75 | 323 |
| 3501-4000 | 287 | 247 | 7 | 8 | 3 | 4 | 17 | 1 | 186 | 29 | 72 | 287 |
| 4001-4500 | 274 | 242 | 4 | 3 | 0 | 4 | 19 | 2 | 202 | 23 | 49 | 274 |
| 4501-5000 | 210 | 192 | 4 | 2 | 0 | 1 | 11 | 0 | 147 | 27 | 36 | 210 |
| 5001-5500 | 164 | 153 | 2 | 1 | 0 | 2 | 6 | 0 | 105 | 18 | 41 | 164 |
| 5500-6000 | 180 | 174 | 1 | 1 | 0 | 0 | 4 | 0 | 123 | 18 | 39 | 180 |
| 6000-6500 | 104 | 96 | 1 | 1 | 0 | 0 | 6 | 0 | 67 | 11 | 28 | 104 |
| 6501-7000 | 67 | 66 | 0 | 0 | 0 | 0 | 1 | 0 | 49 | 2 | 16 | 67 |
| Over \$7000 | 177 | 171 | 0 | 1 | 0 | 0 | 5 | 0 | 139 | 13 | 25 | 177 |
| TOTAL | 3,668 | 2,509 | 79 | 128 | 79 | 365 | 427 | 101 | 2,599 | 364 | 725 | 3,688 |

*Retirement Codes

- 1 Service
- 2 Survivor (survivor of active employee)
- 3 Service Connected Disability
- 4 Non-Service Connected Disability
- 5 Continuance (survivor of retired employee)
- 6 Deferred Vested
- 7 Ex-Spouse

**OPTION DESCRIPTIONS

- A Unmodified - 50% Continuance
- B Option 1: 100% Continuance/reduced pension
- C No Survivor - No Continuance

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2011

| Amount Monthly Benefit | Type of Subsidy | |
|------------------------|-----------------|--------------|
| | Health | Dental |
| Ineligible/Deferred | 0 | 626 |
| \$1 - 60 | 0 | 92 |
| \$61 - 250 | 0 | 2,970 |
| \$251 - 500 | 320 | 0 |
| \$501 - 750 | 772 | 0 |
| \$751 - 1000 | 84 | 0 |
| Over \$1,000 | 0 | 0 |
| TOTAL | 3,688 | 3,688 |

Source: Pension Administration System

Average Benefit Payment Amounts

PENSION BENEFITS

As of June 30, 2012

| | Years of Service Credit | | | | | | |
|------------------------------|-------------------------|----------|----------|----------|----------|----------|----------|
| Retirement Effective Dates | 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | 31+ |
| As of 6/30/2012 | | | | | | | |
| Average Monthly Benefit* | \$ 914 | \$ 1,329 | \$ 2,140 | \$ 2,982 | \$ 4,080 | \$ 5,255 | \$ 5,722 |
| Average Final Average Salary | \$ 3,516 | \$ 4,803 | \$ 4,975 | \$ 5,280 | \$ 5,975 | \$ 5,920 | \$ 6,513 |
| Number of Retired Members** | 113 | 402 | 433 | 619 | 586 | 831 | 159 |
| Period 7/1/2010 to 6/30/2011 | | | | | | | |
| Average Monthly Benefit* | \$ 842 | \$ 1,267 | \$ 2,036 | \$ 2,835 | \$ 3,851 | \$ 5,036 | \$ 5,577 |
| Average Final Average Salary | \$ 4,103 | \$ 4,570 | \$ 4,580 | \$ 4,991 | \$ 5,360 | \$ 5,544 | \$ 6,056 |
| Number of Retired Members** | 131 | 371 | 388 | 566 | 465 | 726 | 189 |
| Period 7/1/2009 to 6/30/2010 | | | | | | | |
| Average Monthly Benefit* | \$ 838 | \$ 1,179 | \$ 1,980 | \$ 2,700 | \$ 3,714 | \$ 4,852 | \$ 5,410 |
| Average Final Average Salary | \$ 4,203 | \$ 4,221 | \$ 4,393 | \$ 4,778 | \$ 5,129 | \$ 5,311 | \$ 5,925 |
| Number of Retired Members** | 124 | 343 | 367 | 537 | 417 | 664 | 130 |
| Period 7/1/2008 to 6/30/2009 | | | | | | | |
| Average Monthly Benefit* | \$ 778 | \$ 1,139 | \$ 1,899 | \$ 2,585 | \$ 3,545 | \$ 4,671 | \$ 5,281 |
| Average Final Average Salary | \$ 3,898 | \$ 4,045 | \$ 4,201 | \$ 4,629 | \$ 4,888 | \$ 5,151 | \$ 5,807 |
| Number of Retired Members** | 120 | 329 | 359 | 529 | 392 | 624 | 123 |
| Period 7/1/2007 to 6/30/2008 | | | | | | | |
| Average Monthly Benefit* | \$ 765 | \$ 1,133 | \$ 1,856 | \$ 2,550 | \$ 3,470 | \$ 4,600 | \$ 5,231 |
| Average Final Average Salary | \$ 3,828 | \$ 3,963 | \$ 4,144 | \$ 4,585 | \$ 4,796 | \$ 5,099 | \$ 5,761 |
| Number of Retired Members** | 119 | 325 | 355 | 524 | 382 | 611 | 120 |
| Period 7/1/2006 to 6/30/2007 | | | | | | | |
| Average Monthly Benefit* | \$ 732 | \$ 1,049 | \$ 1,728 | \$ 2,398 | \$ 3,129 | \$ 4,253 | \$ 4,947 |
| Average Final Average Salary | \$ 3,455 | \$ 3,627 | \$ 3,867 | \$ 4,316 | \$ 4,763 | \$ 5,030 | \$ 5,505 |
| Number of Retired Members** | 115 | 307 | 344 | 476 | 348 | 564 | 105 |
| Period 7/1/2005 to 6/30/2006 | | | | | | | |
| Average Monthly Benefit* | \$ 665 | \$ 981 | \$ 1,638 | \$ 2,252 | \$ 2,971 | \$ 4,142 | \$ 4,679 |
| Average Final Average Salary | \$ 3,073 | \$ 3,413 | \$ 3,704 | \$ 4,173 | \$ 4,567 | \$ 4,755 | \$ 5,324 |
| Number of Retired Members** | 116 | 294 | 337 | 449 | 322 | 536 | 100 |

* Includes Cost of Living Increases

** Does not include Survivors and Ex-Spouses

Information presented in the above table is not readily available prior to fiscal year 2006.

Source: Pension Administration System

Average Benefit Payment Amounts

POSTEMPLOYMENT HEALTHCARE BENEFITS

As of June 30, 2012

| Retirement Effective Dates | Years of Service Credit | | | | | | |
|-------------------------------------|-------------------------|--------|--------|--------|--------|--------|--------|
| | 0-5 | 6-10 | 11-15 | 16-20 | 21-25 | 26-30 | 31+ |
| As of 6/30/2012 | | | | | | | |
| Average Health Subsidy | \$ 698 | \$ 426 | \$ 645 | \$ 797 | \$ 873 | \$ 902 | \$ 768 |
| Number of Health Participants* | 27 | 66 | 218 | 580 | 547 | 800 | 150 |
| Average Dental Subsidy | \$ 107 | \$ 107 | \$ 107 | \$ 108 | \$ 107 | \$ 107 | \$ 106 |
| Number of Dental Participants* | 63 | 245 | 325 | 540 | 542 | 800 | 151 |
| Period 7/1/2010 to 6/30/2011 | | | | | | | |
| Average Health Subsidy | \$ 868 | \$ 773 | \$ 764 | \$ 855 | \$ 898 | \$ 928 | \$ 848 |
| Number of Health Participants* | 21 | 39 | 191 | 544 | 448 | 711 | 138 |
| Average Dental Subsidy | \$ 108 | \$ 110 | \$ 109 | \$ 110 | \$ 110 | \$ 109 | \$ 108 |
| Number of Dental Participants* | 64 | 233 | 300 | 500 | 430 | 708 | 139 |
| Period 7/1/2009 to 6/30/2010 | | | | | | | |
| Average Health Subsidy | \$ 587 | \$ 461 | \$ 650 | \$ 797 | \$ 828 | \$ 867 | \$ 816 |
| Number of Health Participants* | 28 | 65 | 242 | 515 | 402 | 649 | 188 |
| Average Dental Subsidy | \$ 103 | \$ 104 | \$ 103 | \$ 103 | \$ 103 | \$ 103 | \$ 103 |
| Number of Dental Participants* | 81 | 218 | 289 | 474 | 384 | 646 | 130 |
| Period 7/1/2008 to 6/30/2009 | | | | | | | |
| Average Health Subsidy | \$ 596 | \$ 449 | \$ 636 | \$ 757 | \$ 779 | \$ 817 | \$ 764 |
| Number of Health Participants* | 26 | 65 | 209 | 505 | 377 | 608 | 121 |
| Average Dental Subsidy | \$ 94 | \$ 93 | \$ 93 | \$ 94 | \$ 93 | \$ 93 | \$ 93 |
| Number of Dental Participants* | 81 | 212 | 286 | 467 | 360 | 608 | 122 |
| Period 7/1/2007 to 6/30/2008 | | | | | | | |
| Average Health Subsidy | \$ 761 | \$ 674 | \$ 689 | \$ 727 | \$ 738 | \$ 785 | \$ 738 |
| Number of Health Participants* | 20 | 42 | 192 | 497 | 356 | 582 | 114 |
| Average Dental Subsidy | \$ 98 | \$ 98 | \$ 98 | \$ 98 | \$ 98 | \$ 98 | \$ 98 |
| Number of Dental Participants* | 59 | 206 | 286 | 456 | 339 | 580 | 115 |
| Period 7/1/2006 to 6/30/2007 | | | | | | | |
| Average Health Subsidy | \$ 728 | \$ 683 | \$ 654 | \$ 678 | \$ 679 | \$ 736 | \$ 700 |
| Number of Health Participants* | 23 | 45 | 195 | 459 | 331 | 555 | 104 |
| Average Dental Subsidy | \$ 97 | \$ 97 | \$ 97 | \$ 97 | \$ 97 | \$ 97 | \$ 97 |
| Number of Dental Participants* | 62 | 202 | 286 | 431 | 318 | 552 | 105 |
| Period 7/1/2005 to 6/30/2006 | | | | | | | |
| Average Health Subsidy | \$ 616 | \$ 635 | \$ 613 | \$ 614 | \$ 615 | \$ 670 | \$ 641 |
| Number of Health Participants* | 24 | 49 | 189 | 416 | 305 | 520 | 98 |
| Average Dental Subsidy | \$ 94 | \$ 94 | \$ 94 | \$ 94 | \$ 94 | \$ 94 | \$ 94 |
| Number of Dental Participants* | 62 | 191 | 280 | 397 | 297 | 521 | 99 |

Retirements During Fiscal Year 2011-2012

SERVICE RETIREMENTS

| | | | |
|-------------------------|-----------------------|----------------------|---------------------|
| ADAMS, JOHN | EMAMI, PATRICIA | LIGHT, JANE | STENDER, STEVEN |
| ADIKARA, THERESIA | ERNST, DON | LOMBARD, GLORIA | STUFFLEBEAN, JOHN |
| AIZUMI, SUSAN | EYCHNER, JANET | LOWENSTEIN, PAUL | SUEN, ROWENA |
| AJLUNI, DIANE | EZZATYAR, PARVIZ | LUDWIG, DONALD | THEISEN, JOSEPH |
| ANNINO, SUSAN | FAY, PATRICIA | MACHADO, ROBERT | TONG, DANIEL |
| ARECHIGA, LAURA | FERRIER, DENNIS | MAHAN, MARY | TORRECILLAS, BENITO |
| AREVALO, MANUEL | FITZHUGH, MARILYN | MAIRE, ROSEMARY | TORRES, JANET |
| AVILA, TERESA | FORMAN, KATHLEEN | MANHEIM, THOMAS | TREADWELL, MARK |
| AYALA, ANNA | FREITAS, DAVID | MANUEL, ROMEO | TUCKER, MARY |
| BALES, ALAN | GALE, GAY | MANZUR, NAGUIB | UEMURA, SUSAN |
| BARBACCIA, SHARON | GAMBELIN, CHRISTOPHER | MAUNG, MAUNG-WIN | URIBE, JOSE |
| BARROS, JOHN | GANGAR, KARNAIL | MAYO, LORRAINE | VADER, FRAN |
| BEDARD, ANN | GARCIA, ERNEST | MC CARTHY, SUSAN | VARGAS, FRANK |
| BETTENCOURT, MANUEL | GARCIA, MICHAEL | MC LAUGHLIN, DOROTHY | VASQUEZ, ILDA |
| BICKFORD, JAMES | GILL, MIKE | MENZIES, STEPHANIE | WANG, CHUNG-WAN |
| BOGGESE, EILEEN | GLEATON, DONALD | MERRILL, THERESE | WEST, KATINA |
| BORTOLUSSI, RICHARD | GREEN, ESTLE | MERRILL, THOMAS | WHARTON, JAMES |
| BOUJA, SANDRA | GREENBERG, CLIFFORD | MERRIOTT, BONNIE | WHITE, ROBERTA |
| BOWSER, ROBERT | GROVER, CHARLES | MEYERS, CHRISTINE | WOLFRAM, JOHN |
| BRATEN, PAUL | GUTIERREZ, NASARIO | MILLICK, SHERRI | YAEGER, STEPHEN |
| BRIM, THOMAS | HALL, CHARLES | MINKS, DORENE | YORK, ROBERT |
| BUCKERT, SABRA | HAM, JAMES | MIRANDA, MATILDE | YOUNG, JUDY |
| BURNETT, JAMES | HANNON, MICHAEL | MOJICA, MICHAEL | ZONIC, DONALD |
| BURNTHORN, KENNETH | HARTWELL, KAREN | MOORE, JANIS | |
| CANCHOLA, MARIA | HAYNES, LAURA | MURILLO, SANDRA | |
| CARMICHAEL, KARIN | HERNANDEZ, JOHN | MURRAY, ANGELITA | |
| CASTRO, GUILLERMO | HETNAR, MERED | MURRAY, RICHARD | |
| CAVA, BERNADETTE | HINAU, NEAL | NGUYEN, TRUNG | |
| CAZARES, YOLANDA | HO, MICHAEL | NIMITZ, STEPHANIE | |
| CHAN, THIN-JUAN | HOLLOWAY, SANDRA | OCHOA, LETICIA | |
| CHEN, ANGELA | HOLMES, CARLA | OLIVEROS, LIGAYA | |
| CHEUNG, ALICE | HOM, MARY | OPHEIM, ROBIN | |
| CHEUNG, DAVID | HORSTMAN, ELLEN | ORTIZ, RICHARD | |
| CHING, CHRISTOPHER | HOUSTON, PATRICIA | PAMBID, MERLYN | |
| CLANTON, DANIEL | HSIEH, MICHAEL | PARDO, MOSES | |
| CLARK, WILLIAM | IDEMOTO, DIANE | PEREZ, ANTONIO | |
| CLEMMONS, DEREK | JACOBS, TRACY | REILLY, THOMAS | |
| CORONADO, ROSALYN | JAMISON, DIANA | RENTERIA, SARAH | |
| COVICH, SUSAN | JENSEN, PETER | RILEY, CURTIS | |
| DA SILVA, CAROL | JOHNSON, CYNTHIA | RIVAS, JUAN | |
| DARDIS, WILLIAM | JOHNSON, SCOTT | RODRIGUEZ, GENEVIEVE | |
| DAVIS, GREG | JOHNSON, VICTORIA | ROGERS, LARRY | |
| DAVIS, SANDRA | JUSTO, RUBY | ROSALES, MARY | |
| DAWKINS-THAMES, PHYLLIS | KAR, ANIL | RUIZ, RICHARD | |
| DEISENROTH, LORIE | KELSO, CHARLOTTE | SANTOMAURO, ANTHONY | |
| DENT, MOLLIE | KNIGHT, MARIA | SHERR, LAURIE | |
| DIAZ, MICHAEL | LANGHORST, HILARY | SMITH, DANNY | |
| DIAZ, YOLANDA | LARSON, ELIZABETH | SOHRABI, EBRAHIM | |
| DIRIGE, MERRILL | LEA-FUJIMOTO, DONNA | SOMERO, ROGER | |
| DOMINGUEZ, REBECA | LEDOUX, KAREN | SOTIRHOS, JERRY | |
| DONOVAN, IRENE | LEE, YOLANDA | STAUFFER, SUZAN | |

Source: Pension Administration System

Retirements During Fiscal Year 2011-2012 (Continued)

DEFERRED VESTED RETIREMENTS

| | | | |
|-----------------------|------------------|-----------------------|--------------------|
| BARRERAS, TODD | DONATELLI, PEGGY | LINO, AYUMURA | ROEMER, STEVEN |
| BOWENS-ATKINS, SHERYL | FELKER, CYNTHIA | MARTINEZ, JOSE | STONE, NEIL |
| CARNAHAN, PATRICK | FREDERICK, SCOTT | MATHIUS, PAMELA | TAA, LEO |
| CARRILLO, ALMA | FUNG, VINCENT | MC DONALD, BRUCE | TIJANI, RICKY |
| CARSON, CONNIE | GADD, GEORGE | MORENO, DAVID | UNEBERG, ERIC |
| CHAN, BRIAN | GERVIN, LORRIE | MOTTE-PETERS, LYNETTE | UNGSON, EMMANUEL |
| COFFMAN, DOUGLAS | GONZALEZ, MIKEL | NGUYEN, PATRICIA | WENDLING, ANGELINA |
| COMPOST, SHALOM | HORWEDEL, LINDA | NOSTAJA, JACKIE | WOLF, RICARDO |
| CUETO, MARIA | JORDAN, BARBARA | NOVAK, SCOTT | |
| DIMOND, ELLEN | KENELLER, KARIN | QUINTANA, DANIEL | |
| DISHER, WAYNE | LINDEMUTH, MARY | QUINTERO, GUADALUPE | |

SERVICE CONNECTED DISABILITY RETIREMENTS

NONE

NON-SERVICE CONNECTED DISABILITY RETIREMENTS

STOLLMAN, DEBORAH

Deaths During Fiscal Year 2011-2012

DEATHS AFTER RETIREMENT

| | | | |
|-------------------|--------------------------|--------------------|---------------------|
| AFONSO, LIONEL | HIRATA, BOB | PADILLA, DAVID | VAUGHN, MERLE |
| ALLAN, LORRAINE | HURSH, FRANK | PATONAI, RICHARD | VEGA, ROBERT |
| AUST, RICHARD | IHORI, LARRY | PATTEE, MARGARET | WEAVER, VERA |
| BACA, ROBERT | KEEHEN, TIMOTHY | PONCE, LILY | WESTHEIMER, RICHARD |
| BONIOR, AILIE | KENNEDY, JOYCE | RAMIREZ, TENNIE | ZUNIGA, RODOLFO |
| BORDER, NICHOLAS | KUO, CYNTHIA | RUDY, EUGENE | |
| BYERS, ELENORE | LARAGIONE, JOSEPH | RUSCIGNO, RONALD | |
| CHAVEZ, FRANK | LYND, ODUS | SALISBURY, DOROTHY | |
| COLLA, JOHN | MASSUCCI, LOUIS | SAUCEDO, ALFONSO | |
| DAVILA, ESTHER | MC GOWAN-MIRABELLA, BETT | SCHILL, CAROL | |
| DETMERS, LORIS | MONTIJO, RAYMOND | SGAMBATI, ROBERT | |
| DORFMAN, LORRAINE | MOORE, MAXINE | SHIELDS, BEVERLY | |
| GATHERS, JOAN | NELLANY, JOHN | SPALDING, JOHN | |
| HALL, JAMES | NORWOOD, LINDA | TAKATA, NATSUYE | |
| HALL, KENNETH | NUNES, SANDRA | TENORIO, FLORENCIO | |
| HERNANDEZ, PEDRO | O'NEIL, DIANE | TERSCHUREN, ERNEST | |
| HERNANDEZ, RALPH | OLIVER, ROBERT | TOMLIN, JOHN | |
| HERRON, STEVE | OVERSON, DIANA | TUCKER, GAIL | |

DEATHS BEFORE RETIREMENT

BELTRAN, LEON
JOHNSON, GORDON
PETTIGREW, JEFFREY
SHIRALDI, JEANNE

Source: Pension Administration System

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